kotak Institutional Equities

Capital Goods

India

Sector View: **Cautious** NIFTY-50**: 22,119** **March 04, 2025**

Downturn in its last leg; time to BUY selectively

The 8-25% decline in key stocks since our January 20 note has lowered the difference in implied future and historical business CAGR to 1.5% over a 20-year period, still a tall ask. The decline has been more discerning across the spectrum, versus the 16-20% fall in the prior month, with Cummins declining the least and ABB/Siemens the most. We remain constructive on stocks where salience and growing relevance of business themes beyond recovery in private sector spending stand out. Upgrade Carborundum Universal and Praj Industries to BUY, ABB and Thermax to ADD and SIEMENS to REDUCE; retain BUY on Cummins, REDUCE on L&T and SELL on CGPOWER.

Last leg of pain ahead for the sector to reach sane implied growth expectations

The average capital goods stock in our coverage is factoring in ~1.5% higher PAT CAGR than the historical revenue growth over the next 20 years. This difference has become 30% of the >5% levels over the past seven months, the majority of which has happened over the past two months. The absolute quantum of PAT CAGR factored in is averaging >14% over such a period, a tall ask. Select stocks such as L&T, Praj Industries and Carborundum Universal are factoring in lower-than-historical business CAGR. ABB, Cummins and Thermax are in the 1-1.6% range on this metric, while Siemens and CGPOWER (lower RoIC than ABB) continue to factor in 4-7% higher-than-historical business CAGR. The key aspect to consider is a long 20-year call the sector has become. Just to put it in context, this compares to a lower 12-year call on business CAGR that the transportation sector is.

Key private sector plays saw large correction; KKC and L&T were more resilient

As anticipated by us, the key private sector plays in ABB, Siemens and Thermax got hit the most, declining 24-25% over the past 40 days. Cummins and L&T declined 7% and 11%, respectively. L&T's decline, though, needs to be seen in context of very strong order inflows in 3Q and then in 4Q to date. Mid-cap stocks with company-specific risks saw sharp corrections—Carborundum declined 32% on weak results and Russia overhang while Praj Industries declined 39% on weak results and overhang of commissioning of the underutilized Mangalore facility.

Upgrade Carborundum, Praj to BUY and TMX to ADD; KKC remains top BUY idea

The above four stocks are all diversified plays on themes beyond private sector spending. Also, the difference in growth expectations over the next 20 years for these stocks is much lower versus the rest of the pack. Carborundum Universal and Praj Industries have a low base of near-term earnings as well. We upgrade Carborundum Universal to BUY (from REDUCE), Praj Industries to BUY (from ADD) and Thermax to ADD (from REDUCE).

Upgrade ABB to ADD, SIEM to REDUCE; CGPOWER (SELL) still expensive

We upgrade ABB to ADD with an unchanged FV. Upgrade Siemens to REDUCE from ADD as recent results have brought out risk margin in Digital Industries that we were concerned about. For Siemens, the risk emanates from the upcoming demerger—a potential change in license fee/royalty terms as promoters change hands in the demerged entities. CGPOWER remains expensive in the context of a limited span of growth opportunity in domestic T&D and Kavach opportunity.

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Implied growth expectations are moderating

The guiding light for us in terms of value continues to lie on the difference between growth expectations factored in existing businesses versus the growth delivered in the past. Even post the recent stock price correction, the difference for the average capital goods stock under coverage is 1.5% over the next 20 years, a long growth period. The same has reduced from 5%/4%/2.5% levels in July 2024/December 2024/January 2024. The absolute growth expectation is still >14% over the next 20 years.

Some more downside for the market ahead

The exhibit below aims to back-calculate the implied growth expectations in stock prices. The same takes into account the value of businesses not captured inside near-term estimates, on which such growth expectations are calculated. For instance, the value of the semiconductor business and of impending QIP for CGPOWER is taken out of its current market capitalization to derive growth expectations. Similar is the case for Thermax's Green Energy Solutions where EPS is currently negative and the value of the same (at 1.3X P/B) has been taken out of CMP.

We come to an implied PAT CAGR numbers based on a long 20-year growth period (terminal growth of 5.5-6% ahead), the company-specific FCF-to-PAT conversion ratio and a cost of equity that takes into account inherent risks in the business.

We compare the implied PAT CAGR to the historical revenue growth for the capital goods companies and come to an average difference in the future and the past at 1.5%. We note the implied revenue CAGR expectations would be different (potentially higher) than the implied PAT CAGR expectations on account of margin movement (already at high levels) and other income (typically moves slower than revenue growth). The difference, thus, would be higher than 1.5% suggested by our analysis below.

Cummins, LT, Praj and CUMI appear more reasonably-placed; Indigo and Adani Ports appear attractive on the basis of implied growth assumptions being lower than historicals level

Exhibit 1: Comparison of the key companies in the capital goods and transportation space, March fiscal year-ends

				CAGR			Assumptions			
Company	1 Yr. fwd PE (X)	1Yr. Fwd EPS (Rs)	CMP (Rs)	Implied PAT (%)	Historical revenue (%)	Difference (%)	Terminal growth (%)	Cost of Equity (%)	RoIC (%)	Growth years (X)
Capital goods										
ABB	55	93	5,118	14.2	12.5	1.7	6.0	11.0	94	20
Siemens	57	85	4,830	17.0	12.9	4.1	6.0	11.5	17	20
Cummins	36	80	2,835	13.5	12.6	0.9	5.0	12.0	47	20
CG Power	58	8	573	17.4	9.8	7.6	6.0	12.0	35	20
CUMI	29	29	835	13.6	14.0	(0.4)	6.0	12.5	15	20
Praj	26	18	476	12.2	14.2	(2.0)	5.0	12.5	44	20
Thermax	37	78	3,181	14.0	13.0	1.0	6.0	12.0	25	20
LT	25	85	3,183	12.8	13.7	(0.9)	5.5	12.5	16	20
Capital goods	**40**			**14.3**	**12.8**	**1.5**	**5.7**	**12.0**		**20**
Transportation										
Adani Ports	18	60	1,074	10.9	18.7	(7.8)	5.5	12.5	15	10
IndiGo	20	223	4,469	13.5	20.0	(6.5)	5.5	13.0	NA	10
Concor	25	26	642	13.6	8.3	5.3	6.0	12.5	17	15
Transportation	**21**			**12.7**	**15.6**	**(3.0)**	**5.7**	**12.7**		**12**

Legend: <0% | <1.5% | >1.5%

Notes:-
(a) Part of LT and CUMI implied growth can come from margin expansion
(b) We use standalone financials of CG Power to calculate historical CAGR
(c) CG Power's implied expectations do not account for value of OSAT and QIP (3X P/B), which has been excluded from CMP for such analysis
(d) We seperately value green energy business for Thermax and subtract the same from the CMP.
(e) We use FY2005 base year for Praj as volumes doubled yoy over FY2004 base. We use FY2004 as base year for others
(f) We assume discounted FY2027EPS for CUMI as FY2026 will bear the brunt of high fixed cost base of VAW Russia and export revenues becoming nil
(g) We assume discounted FY2027EPS for Praj as it reflects sustainable mix of revenue from CBG and ETCA (overhang on margin and growth fades away)

Source: Company, Kotak Institutional Equities estimates

We note the scope of select capital goods stocks growing faster than the past. The past has been characteristic of the rise and fall of the capex cycle for the companies in the capital goods space and the sector growing revenues at an average of 13% CAGR over the past 20 years. The future for select companies can be better as capital goods companies leverage (1) penetration/gains (aftermarket, exports), (2) shift toward green products and processes and (3) entry into new businesses.

We put below our preferences for owning stocks on the basis of three factors—(1) where the difference in expectations versus the past is reasonable against business themes the stocks are exposed to, (2) where such business themes beyond private corporate spending (in terms of current salience and growing relevance) and (3) the effect of externalities inside one-year forward estimates (positive in most cases, negative in some).

We consider Cummins, CUMI and Praj as reasonable longs and see meaningful downside to Siemens and CGPOWER

Exhibit 2: Key imponderables in choosing stocks in capital goods space - alpha to be justified, relevance of plays beyond private sector spending, effect of externalities on near-term estimates

	CAGR (%)				
	Implied PAT	Historical revenue	Difference	Drivers of alpha over the long term	Effect of externalities inside one-year forward estimates
ABB	14	13	1.7	- Growing share in GDP of manufacturing - Datacenters - Energy Efficiency - Digitalization - Robotics - New endeavours (bolt-on acquisitions)	Positive - High margin linked to market health
Siemens	17	13	4.1	- Growing share in GDP of manufacturing - Datacenters - Energy Efficiency - Digitalization - Cybersecurity	Positive (low boost) - High margin inside DI segment
Cummins	14	13	0.9	- Infrastructure asset creation - Datacenters - Exports (high salience) - Aftermarket (high salience) - Shift towards green	Positive (low boost)
CG Power	17	10	7.6	- Growing share in GDP of manufacturing - New businesses in railways and semiconductors - Growing share of exports (low salience at present)	Positive (high boost) - High margin inside Power systems segment - Limited period opportunity from Kavach
CUMI	14	14	(0.4)	- Growing share in GDP of manufacturing - China + 1 - Inorganic expansion to add capabilities and grow relevance globally - New age materials (elecronics, energy)	Negative (high overhang) - Chinese dumping in abrasives and electrominerals - Start-up costs in acquisitions in Europe - Stiff accounting of depreciation in Rhodius
Thermax	14	13	1.0	- Green products - heat pumps, electric boilers, flexifuel power solutions - Compressed bio-gas - Coal gasification - Hydrogen - Energy management solutions	**Limited impact of externalities**
Praj	12	14	(2.0)	- Decarbonization at a global level - Modularization of process equipment	Negative (low overhang) '- CBG, SAF anf global 1G ethanol opportunities to contribute more from FY2027
LT	13	14	(0.9)	- Large government programmes - hydro, green energy, nuclear, river linking - Diversification in overseas beyond GCC driving growth	**Limited impact of externalities**

Legend
Stocks with reasonable build-up of alpha and diversified plays beyond private-corporate spending
Stocks with high build-up of alpha which are primarily plays on private-corporate spending

Source: Kotak Institutional Equities

Earnings upgrades warranted in CUMI, Thermax and ABB post recent correction

We upgrade Carborundum Universal to BUY (from REDUCE) and Praj to BUY (from ADD) post the recent market correction. We also upgrade Thermax to ADD (from REDUCE) and ABB to ADD (from SELL)

Exhibit 3: Change in rating and fair values of capital goods companies under KIE coverage

	Rating		Fair value			
Coverage	Current	Last	Current	Last	Upside/ (downside)	1Yr. Fwd PE at fair value
ABB	ADD	SELL	5,350	5,350	5	50
Siemens	REDUCE	SELL	4,700	4,700	(3)	47
Cummins	BUY	BUY	3,700	3,700	31	40
Carborundum	BUY	REDUCE	980	1,050	16	30
CG Power	SELL	SELL	520	520	(11)	50
Thermax	ADD	REDUCE	3,600	3,600	12	41
Praj Industries	BUY	ADD	740	760	55	35

Source: Kotak Institutional Equities estimates

Investment theses across stocks

- **Cummins (BUY, FV: Rs3,700): Diversified play with levers to generate alpha.** In Cummins, we see a low and better exposure to private corporate spending. The same relies on more steady capex plays (commercial/residential realty, manufacturing set-ups) or those with growth support (data centers) and not as much on capital intensive plays (cement, steel, power, O&G). There are several business themes beyond private sector spending that can drive faster growth through penetration gains (exports, aftermarket). The impact of shift away from diesel may be contained in the near term to 10% of sales and the same need not necessarily be detrimental for Cummins India. Recent share gains in LHP and MHP segments enthuse. What also comforts is the prospects of benefiting from tariffs on Mexico though several things need to fall in place for Cummins India to benefit from the same. The imponderables are several and thus probability of benefit is low – (1) US tariffs of 25% on Mexico should from March 4, (2) Indian entities of Cummins need to build products suited for US market and (3) Cummins India should be a beneficiary of the same.

- **CUMI (upgrade to BUY, FV: Rs980 from Rs1,050)**: **Estimates build stress, not as much the potential in semiconductor business**. Carborundum Universal (CUMI) is a reasonable play on the semiconductor business as it is exposed to a global material opportunity in niche and high-growth silicon-carbide-based power devices market. In such a market, it has the potential to grow the value chain as well. The near-term estimates build in the stress from externalities (including increased Chinese competition and one-third the current PAT from VAW Russia) and low base of margin in recent overseas acquisitions inside the base. CUMI will continue to invest aggressively into adding/acquiring capabilities across its three business segments and thus leverage debt-free balance sheet to good effect. Upgrade to BUY from REDUCE.

- **Praj Industries (upgrade to BUY from ADD, FV: Rs740 from Rs760): a preferred play on decarbonizing mobility**. Praj Industries is a multi-pronged play on decarbonization at a global level and primarily in areas (excluding SAF) where the requirement for subsidy support is limited. Moreover, the company has a commercial offering and a strong market positioning in many of these segments. Of the opportunities, we remain most positive of the impending uptick in investments in CBG, especially post announcement of large investments by Reliance in this business. The recent price correction builds in the near-term impact of underutilized ETCA facility in Mangalore (shaves off 2% from PAT margin). Our discussion with participants from the India Energy Week support our thesis of an impending uptick in investments in compressed bio-gas. Lastly, the opportunity from the Global Bio-Fuel alliance 10% blending beyond the top-three countries is comparable to the opportunity from 20% blending in India.

- **Thermax (upgrade to ADD, FV: Rs3,600)**: **Overhang of projects on the mend; product businesses continue to grow well.** Thermax is well prepared from the perspective of winning incremental project orders and in staging a turnaround in the segment profitability. The Industrial Products portfolio will continue to grow, boosted by growing relevance of the SustainX portfolio – is already a Rs2 bn portfolio on an annualized basis. Chemicals business is seeing meaningful traction in terms of new partnerships and the related upfront costs will eventually yield higher revenue growth and profitability. From a valuation perspective, the company is now factoring 14% PAT CAGR over the next 20 years, reasonable in context of impending margin expansion and sharp uptick in select growth sectors such as compressed bio-gas and SustainX portfolio.

- **Siemens (upgrade to REDUCE, FV: Rs4,700): Margin moderation inside estimates; uncertainty linked to endgame of demerger the key risk**. The recent weakness in the results reflect the Digital Industries business again correcting back to mid-single digit levels from the mid-double-digit highs seen in FY2023. With the same inside estimates, the key incremental risk relates to the demerger. Siemens still trades at a premium on one-year forward PE multiples to ABB. On an absolute basis, it factors in ~16% PAT CAGR over the next 20 years, 3.5% ahead of its historical 20-year business CAGR.

- **CGPOWER (SELL, FV: Rs520**). The implied PAT CAGR expectations of 17% over the next 20 years are far away from the 10% historical business CAGR for the standalone business. The same is the case after taking out the value of the semiconductor OSAT business and valuing QIP at 3X book value. The alpha versus the past within 17% PAT CAGR expectation would fall a lot more on exports as both domestic T&D and Kavach opportunity in rail, both of which have a strong growth runway limited to the next 3-5 years.

Cummins (BUY, FV: Rs3,800): Diversified play with levers to generate alpha

- **Recent developments are supportive**. Recent share gains in LHP and MHP segments enthuse – 23% yoy growth in 9MFY25 for Cummins versus negligible growth for key peer in Kirloskar Oil Engines (KOEL). What also comforts is the prospects of benefiting from tariffs on Mexico though several things need to fall in place for Cummins India to benefit from the same. The imponderables are several and thus probability of benefit is low – (1) US tariffs of 25% on Mexico should come to effect from March 4, (2) Indian entities of Cummins need to build products suited for US market and (3) Cummins India should be a beneficiary of the same. Having said so, the quantum of benefit could be large – material part of the US$1.5 bn of US imports of diesel engines/components from Mexico would involve powergen from Cummins Mexico to Cummins US versus US$0.4/0.2 bn of overall imports by Cummins from Indian entities of Cummins/Cummins India.

- **Limited and better exposure to private corporate capex spending**. Unlike other capital goods stocks, Cummins is the least exposed to direct private corporate capex spending. The domestic powergen business (~35% of revenues) houses most of such exposure. This quantum accounts for a majority share of exposure for other key capital goods companies. Even within this exposure for Cummins, the same is less exposed to the more cyclical and capex guzzling sectors (power, cement, steel, O&G) and more exposed to sectors with steady capex profiles (commercial and residential reality, manufacturing, small offices, data centers). In addition, there are penetration gains in the domestic powergen segment that would continue to protect growth in this vertical as the ability to withstand power cuts/power disturbances continue to reduce for potential customers in the segment.

- **Good salience of the exports and aftermarket segments, with potential to gain relevance**. Both these segments combined account for >45% and this is where Cummins expects meaningful penetration gains to happen over time. Most capital goods companies operate at half of such quantum within their revenue mixes. On the exports business, Cummins Inc. as a global parent considers its manufacturing presence in India to be comparable or the higher competitiveness than China, and continues to invest for the same. This is not the case for most global parents of listed capital goods companies in India. Furthermore, the country has moved to adopting the most stringent emission norms in the world for gensets and thus, Cummins can combine its scale benefits to expand exports TAM as and when other countries move to such levels of stringent emission norms. In the aftermarket business, Cummins keeps on exploring the prospects of (1) adding new services/products for its existing installed base, (2) gaining from the existing installed base of competitors and (3) entering new markets where the parent has a direct product presence and not through the listed entity (on-highway vehicles segment).

Cummins is the company that is pricing in the least amount of PAT CAGR expectations within the capital goods coverage of KIE. While we acknowledge the issue of other income dragging down the PAT CAGR for capital goods stocks and for Cummins in specific, we consider the modest implied PAT CAGR expectations a good starting point to invest in Cummins. Of relevance are the following points in favor of our thesis.

We note sharp market share gains in 9MFY25

Exhibit 4: Power gen revenue of Cummins (stand.) and Kirloskar Oil Engines (stand.), March fiscal year-ends, 2020-3Q25 (Rs mn)

Power gen revenue	2020	2021	2022	2023	2024	9M25 annualized	3Q25 annualized
KOEL- Standalone	12,680	8,122	13,936	17,179	19,070	19,027	16,720
KKC	5,540	3,630	5,880	7,300	8,710	10,053	11,120
KKC to KOEL ratio (X)	**0.44**	**0.45**	**0.42**	**0.42**	**0.46**	**0.53**	**0.67**

Notes:-
(1) KKC Power gen revenue comprises of LHP & MHP

Source: Companies, Kotak Institutional Equities

We expect ~60% of business of KKC to grow at 2X-3X GDP over the next few years

Exhibit 5: Growth segments for Cummins India that can grow at 2X-3X GDP growth

Sub-segment	Revenue (Rs bn)	Revenue share (%)	Comment
Distribution segment	22	25%	A play on growing products and services offering, especially reconditioning (25% of global distribution business and insiginifcant share at present in India)
Share gains in CBCB IV regime	11	12%	Cummins has globally seen market share gains and margin improvement pan out in countries going for big changes in emission norms, as is as the case for India at present
Data centers, residential reality	10	11%	These are powergen markets that will likely grow at a healthy for some years to come based on need for data centers and strong sales by listed real-estate majors
Exports to Middle East, Europe and US.	10	11%	Exports to Middle East should improve on growing capex spending plans of these economies. Exports to Europe to benefit from start of exports of emission norms-compliant products. US Exports may benefit with an lag as and then India products start becoming more competitive versus Mexico (benefit for FTA with US)
Total	**52**	**59%**	

Source: Company, Kotak Institutional Equities

Exhibit 6: Financial summary of Cummins (consolidated), March fiscal year-ends, 2017-27E (Rs mn)

	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Profit model											
Net revenue	**50,773**	**50,825**	**56,590**	**51,577**	**43,292**	**61,404**	**77,444**	**89,586**	**105,216**	**121,990**	**139,186**
Total operating costs	(42,755)	(43,501)	(47,949)	(45,715)	(37,497)	(52,553)	(65,018)	(71,972)	(84,883)	(99,055)	(112,196)
EBITDA	**8,018**	**7,325**	**8,641**	**5,863**	**5,795**	**8,851**	**12,426**	**17,614**	**20,333**	**22,935**	**26,990**
Other operational income	1,192	1,307	1,333	961	732	1,148	1,321	1,422	1,690	1,794	1,905
Other income	2,080	2,285	2,928	3,315	3,702	2,875	4,200	5,678	6,347	7,222	8,184
PBDIT	10,098	9,609	11,569	9,178	9,497	11,726	16,626	23,292	26,680	30,157	35,174
Financial charges	(168)	(148)	(162)	(203)	(162)	(115)	(158)	(268)	(161)	(161)	(161)
Depreciation	(848)	(938)	(1,103)	(1,187)	(1,255)	(1,340)	(1,405)	(1,576)	(1,894)	(2,053)	(2,226)
Pre-tax profit	9,082	8,523	10,303	7,789	8,080	10,271	15,064	21,448	24,625	27,943	32,788
Taxation	(1,736)	(1,826)	(3,078)	(1,297)	(1,901)	(2,463)	(3,623)	(4,824)	(5,785)	(6,565)	(7,703)
PAT	7,346	7,085	7,226	6,293	6,179	8,866	11,298	16,623	18,839	21,378	25,085
Adjusted PAT	**7,280**	**6,745**	**7,306**	**7,072**	**6,350**	**8,284**	**12,460**	**17,206**	**19,526**	**22,134**	**25,916**
Balance sheet											
Shareholders funds	37,422	39,861	41,305	41,750	44,068	48,527	53,680	61,631	69,611	78,679	89,350
Loan funds	2,508	2,515	3,092	4,854	156	3,933	3,500	1,000	1,000	1,000	1,000
Total source of funds	**39,930**	**42,376**	**44,396**	**46,603**	**44,224**	**52,460**	**57,180**	**62,631**	**70,611**	**79,679**	**90,350**
Net block	12,322	12,882	12,848	12,277	11,654	12,254	12,030	13,178	13,516	13,860	14,090
Net fixed assets	16,954	13,261	14,433	13,077	12,929	12,862	12,443	14,146	14,485	14,828	15,058
Investments and goodwill	9,753	12,798	10,133	18,606	13,892	15,939	21,042	21,927	14,883	14,883	14,883
Cash balances	1,291	4,709	7,379	4,538	9,652	14,267	13,808	15,047	28,529	35,077	43,286
Net current assets excluding cash	11,501	11,866	13,400	11,038	8,377	10,342	10,933	12,425	13,656	15,833	18,065
Total application of funds	**39,930**	**42,376**	**44,396**	**46,603**	**44,224**	**52,460**	**57,180**	**62,631**	**70,611**	**79,679**	**90,351**
Cash flow statement											
Operating profit before working capital changes	8,951	8,537	10,202	7,455	7,683	10,297	14,221	19,617	26,680	30,157	35,174
Change in working capital	371	(370)	(2,341)	144	1,028	(683)	(2,591)	(1,845)	(1,231)	(2,177)	(2,232)
Tax paid	(1,867)	(1,823)	(2,361)	(1,609)	(832)	(2,543)	(3,520)	(4,972)	(5,785)	(6,565)	(7,703)
Cashflow from operating activites	**7,456**	**6,344**	**5,500**	**5,990**	**7,879**	**7,071**	**8,111**	**12,801**	**19,663**	**21,415**	**25,239**
Capex	(2,315)	(905)	(2,734)	(2,366)	(1,140)	705	(1,540)	(2,812)	(2,206)	(2,396)	(2,456)
Free cash flow	**5,141**	**5,440**	**2,767**	**3,623**	**6,738**	**7,776**	**6,571**	**9,989**	**17,457**	**19,019**	**22,783**
Growth (%)											
Revenue growth	7.8	0.1	11.3	(8.9)	(16.1)	41.8	26.1	15.7	17.4	620,284.7	14.1
EBITDA growth	3.4	(8.7)	18.0	(32.2)	(1.2)	52.7	40.4	41.7	15.4	71,689.1	17.7
Recurring PAT growth	1.4	(7.3)	8.3	(3.2)	(10.2)	30.5	50.4	38.1	13.5	66,803.3	17.1
Key ratios (%)											
Gross margin	35.5	35.9	36.1	34.7	36.2	33.1	32.5	35.6	35.6	34.5	34.7
EBITDA margin	15.8	14.4	15.3	11.4	13.4	14.4	16.0	19.7	19.3	18.8	19.4
PAT margin	14.5	13.2	12.8	12.6	14.3	12.7	14.8	18.6	17.9	17.5	18.0
RoE	20.3	17.3	17.8	15.6	14.4	16.9	22.4	28.8	28.7	30.3	30.4
RoCE	11.5	9.9	5.9	6.9	5.6	12.9	14.0	18.1	22.9	26.7	27.2
Debt / equity (X)	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Adj. EPS (Rs)	**26.3**	**24.3**	**26.4**	**25.5**	**22.9**	**29.9**	**45.0**	**62.1**	**70.4**	**79.8**	**93.5**

Source: Company, Kotak Institutional Equities estimates

CUMI (upgrade to BUY, FV: Rs980): Estimates build stress, not as much the potential in semiconductor business

- **Russia overhang built in sufficient quantum**. We assume 60% of the current revenues from Russia business at 60% of current profitability in FY2027. This builds in the risk of overseas business from Russia becoming nil. The impact on consolidated EPS in higher in FY2026 due to timing issues – costs need time to be aligned to revised scale of business. This builds in implications of the recent development of the company's Russian subsidiary (VAW) being added by the US Department of Treasury's Office of Foreign Asset Control (OFAC) to its Specially Designated Nationals and Blocked Persons (SDN) list for operating or having operated in the manufacturing sector of the Russian Federation stand as (1) properties of VAW in the US, if any, would be blocked from use and (2) VAW would be disallowed to transact in US$ and the closure of market access in the region. VAW does not have any revenue exposure in the US historically.

We assume 60% of the current revenues from Russia business at 60% of current profitability in FY2027

Exhibit 7: Key financials of Carborundum (consolidated), VAW (Russian subsidiary), March fiscal year-ends, 2019-27E

Financials	Units	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Consolidated PAT	Rs mn	2,277	2,573	2,780	3,297	4,044	4,323	3,404	4,429	5,968
VAW Revenue	Rs mn	6,502	6,765	6,825	7,094	9,960	9,026	8,575	6,002	6,602
VAW PAT	Rs mn	891	867	1,052	1,063	1,520	1,486	1,167	272	649
As % in Consol. PAT	**%**	**39**	**34**	**38**	**32**	**38**	**34**	**34**	**6**	**11**
VAW PAT margin	%	14	13	15	15	15	16	14	5	10

Source: Company, Kotak Institutional Equities estimates

- **Reasonable play on the semiconductor story**. CUMI stands out within the capital goods pack, where the SEMICON potential is reasonably valued and does not account for a large value at present. Note that CUMI prices are not very different from the historical business CAGR—prices in 15%. This is comforting in the context of the past and (even more) the future, which is likely to have inorganic elements of growth. SEMICON is a key focus area for the company with it starting from the SiC powder manufacturing process and having the ambition to undertake the wafer manufacturing process over time. The same can multiply the TAM for SEMICON by 4X the current TAM. Additionally, note that this TAM will grow at a meaningful pace as its focus is on the fledgling SiC-based power devices market. This currently forms a small part of the overall semiconductor market and will continue to gain relevance.

- **Several transitory factors curbing near-term estimates that will eventually strengthen growth**. Unlike the other capital goods stocks, which have transient benefits on margin and revenues, CUMI's near-term estimates already factor in stress from select transient issues. Some of these may persist for longer such as dumping by Chinese entities; the company is already preparing its strategy to counter the same. Others may not last for long. These include the stiff depreciation from an accounting perspective for the Rhodius acquisition (takes out 4% of consolidated PAT) and the impending improvement in the operating margin for overseas subsidiaries (Rhodius, Awuko). We also note prospects of synergy for these acquisitions that will play out over time.

We build in ~US$0.4 bn value for CUMI's Sic powder business in semiconductor applications based on 5% market share, 25% PAT margin and 50X exit multiple

Exhibit 8: Back-of-the-envelope valuation of CUMI's nascent SiC power business for semiconductor applications

Metric	Year	Unit	Quantum	Comment
Assumptions for SiC global market				
SiC-based power devices market size	CY2023	US$ bn	2.0	Yole intelligence
SiC-based power devices market size	CY2027	US$ bn	7.8	Mckinsey expects wafer capacity to become ~4X over CY2023-27 based on announced capacity additions
Share of SiC powder in semiconductor value chain		%	5	Industry thumb rule
Market size of SiC powder for semiconductor applications	**CY2027**	**US$ bn**	**0.4**	
Assumptions for CUMI's SiC powder business for semiconductor applications				
Market share of CUMI	CY2027	%	5	Liberal assumption given limited tie-ups for material for top-six power device manufacturers
PAT margin for CUMI	CY2027	%	25	20% premium to the margin for the ceramics segment
PAT for CUMI's SiC powder business	**CY2027**	**US$ mn**	**5**	
One-year forward multiple assumed for this business		X	50	SiC-based semiconductors will continue to grow in relevance, especially within the power semiconductors space
Potential value of CUMI's business	**CY2026**	**US$ bn**	**0.24**	
Potential value of CUMI's business	**CY2025**	**US$ bn**	**0.22**	**Assuming 13% cost of equity**

Source: Kotak Institutional Equities estimates

CUMI is currently involved in the raw material synthesis process; incremental methods require a different set of capabilities including strong R&D capabilities

Exhibit 9: Steps in Silicon Carbide-based wafer manufacturing

Process	Value addition	End-product	Carborundum's presence	Differentiating aspects/ capabilities
Raw material synthesis	Silicon carbide particles were synthesized by mixing high-purity silicon powder and high-purity carbon powder in a certain proportion at a high temperature above 2000 ℃	High purity SiC powder	Yes	Powder size distribution, maximum packaging density and thermal properties
Crystal Growth	SiC powder source material is sublimed at elevated temperatures above 2000 ◦C and crystallizes at a slightly colder seed	SiC ingot	No	Crystal development R&D capabilities, minimal loss of material, Seed mounting and process control
Ingot Processing	Ingot is ground and rolled to produce silicon carbide crystal with standard diameter	SiC crystal	No	Machining speed, surface integrity, removal of residual stress and related defects
Crystal Cutting	Using multi wire cutting equipment, the silicon carbide crystal is cut into thin sheet with thickness less than 1 mm	Sic wafer	No	Ability to cut through material much harder than Silicon, speed of citing, material loss

Source: Industry reports, Kotak Institutional Equities

Select sources of synergy are in early stage of getting materialized

Exhibit 10: Elements of synergy for CUMI's recent abrasives business acquisitions in Europe and the status of the same

Elements of synergy	Status
Supply of materials from India that the acquired entities in Europe source from elsewhere	Started
Taking in best practices related to equipment design, mix preparation and manufacturing from the acquired entities	Started
Using the network of the acquired entities to sell Indian products	Yet to start
Using Rhodius brand to increase reach of India manufactured products of comparable quality	Yet to start
Leveraging Indian distribution network to sell finished products of the acquired entities	Started
Free up capacity of the acquired entities for doing higher range products	Yet to start

Source: Company, Kotak Institutional Equities

- **Ability to lever the balance sheet to add/acquire capabilities can add to its growth quotient**. CUMI has a unique position among global peers in terms of volumes and range of offerings it has across its abrasives and electro minerals businesses. The company and group are aware of the promise the four key areas of CUMI's expertise hold, and are considering investing in accelerating its growth journey. In such a context, we expect CUMI to continue adding/acquiring capabilities across segments. In our past interactions, the company has shared openness to lever up its balance to the extent of 1X net worth or US$330 mn. The past four acquisitions aggregate a small quantum against such a quantum (sub-US$100 mn in aggregate spends).

CUMI stands unique in terms of its range and volumes for both abrasives and electro minerals

Exhibit 11: Comparison of key peers that CUMI compares itself to across its key product segments

	Revenues	Key competitive offerings			
	(Euros mn)	Abrasives	Ceramics	Electrominerals	Refractories
Saint Gobain	44,000				
Imerys	4,400				
Tyrolit	600				
Fiven	130				
Carborundum Univeral	540				

Source: Companies, Kotak Institutional Equities

CUMI is working on several aspects of capability addition/acquisitions across its key business segments

Exhibit 12: Capabilities that CUMI lacks and may add/acquire over time

Segment	Sub-segment	Nature of capability	Endeavour
Ceramics	Industrial ceramics	New material	Endeavour to add Silicon Carbide-based ceramics; presently offering alumina-based ceramics
	Industrial ceramics	New forming processes	Working on ceramics that are thin enough (20 micron) to be used in select electronic applications on which circuits can be written
	Technical ceramics	Combination of new material and forming process	Using inertness capability of metallized ceramics in applications beyond Power T&D, such as medical equipment and implants
Electro minerals	Alumina-based electro minerals	How to achieve control environment	Working on how to achieve the control environment for fusion through a chemical process rather than heat. CUMI has patented the process but is finding it difficult to scale up
	Graphene	Mixing	Working on the process to mix graphene with cement and doing so in a manner that can be scaled up
	High-purity silicon carbide	Consistency	Working on adding consistency to the manufacturing process for usage in power electronics/battery applications
Abrasives	Bonded abrasives	Local presence	The absence of distribution network outside India was the missing part which recent acquisitions are helping fill
	Thin wheels	Process	The process of manufacturing select abrasives is another void, which recent acquisitions will help fill
	Coated abrasives	Technology	Awuko's niche offering in woodwork and leather would help

Source: Company, Kotak Institutional Equities

Exhibit 13: Financial summary of Carborundum (consolidated), March fiscal year-ends, 2016-27E (Rs mn)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Profit model (Rs mn)												
Net sales	19,440	21,125	23,678	26,889	25,990	26,317	33,248	46,543	47,022	49,420	52,853	61,136
EBITDA	**3,013**	**3,346**	**3,986**	**4,383**	**3,986**	**4,656**	**5,366**	**6,519**	**7,388**	**7,425**	**7,901**	**10,137**
Other income	295	228	229	273	450	314	398	767	767	482	744	916
Interest	(229)	(181)	(86)	(85)	(63)	(36)	(56)	(235)	(183)	(135)	(135)	(135)
Depreciation	(868)	(965)	(1,060)	(1,083)	(1,045)	(995)	(1,146)	(1,873)	(1,908)	(2,101)	(2,323)	(2,582)
Profit before tax	**2,211**	**2,428**	**3,070**	**3,488**	**3,328**	**3,939**	**4,562**	**5,177**	**6,064**	**5,671**	**6,187**	**8,336**
Tax expense	(814)	(781)	(1,020)	(1,212)	(756)	(1,016)	(1,265)	(1,382)	(1,741)	(1,611)	(1,757)	(2,368)
Add: share of profits from associates	158	191	147	199	178	151	203	373	439	482	531	584
Less: minority interest	(114)	(89)	(40)	1	(26)	(88)	(167)	(277)	(149)	(114)	(167)	(249)
Recurring PAT for equity holders	**1,441**	**1,749**	**2,156**	**2,477**	**2,725**	**2,987**	**3,333**	**4,140**	**4,613**	**4,428**	**4,793**	**6,303**
Exceptional items	—	—	—	—	—	(144)	—	—	—	(656—)	—	—
Reported PAT for equity holders	**1,441**	**1,749**	**2,156**	**2,477**	**2,725**	**2,843**	**3,333**	**4,140**	**4,613**	**3,772**	**4,793**	**6,303**
Recurring EPS (Rs)	**7.7**	**9.3**	**11.4**	**13.1**	**14.4**	**15.0**	**17.6**	**21.8**	**24.3**	**19.8**	**25.2**	**33.1**
Balance sheet (Rs mn)												
Equity	11,923	13,828	15,644	17,241	18,584	21,315	23,638	28,206	31,257	34,276	38,111	43,155
Total borrowings	3,199	1,559	1,294	967	595	405	2,400	2,773	1,719	1,689	1,659	1,629
Minority interest	622	657	615	523	455	464	859	1,279	1,393	1,508	1,675	1,923
Deferred tax liability	408	374	274	254	41	96	140	(237)	(497)	(450)	(398)	(328)
Total liabilites	**16,151**	**16,418**	**17,825**	**18,986**	**19,675**	**22,281**	**27,037**	**32,020**	**33,872**	**37,022**	**41,046**	**46,379**
Net fixed assets	6,222	6,626	6,508	6,191	6,540	6,754	9,057	13,698	13,916	14,790	15,443	16,134
Investments	1,471	1,410	1,979	2,469	1,887	1,271	1,378	1,612	1,716	1,716	1,716	1,716
Cash	1,132	1,261	1,289	975	2,940	6,890	3,516	4,001	5,579	6,086	8,629	11,272
Net working capital (ex cash)	5,830	5,973	6,899	8,128	6,978	6,069	11,506	10,265	10,187	11,925	12,753	14,752
Total assets	**16,151**	**16,418**	**17,825**	**18,986**	**19,675**	**22,281**	**27,038**	**32,020**	**33,872**	**36,992**	**41,016**	**46,348**
Free cash flow (Rs mn)												
Operating cash flow	2,585	2,725	3,037	3,414	3,343	3,789	4,511	5,833	6,221	6,170	7,470	9,339
Working capital changes	(808)	228	(907)	(1,396)	725	719	(2,065)	(1,531)	(206)	(1,738)	(828)	(1,999)
Capital expenditure and investments	(843)	(1,061)	(920)	(949)	(1,226)	(3,088)	(493)	(3,006)	(2,302)	(2,976)	(2,976)	(3,273)
Free cash flow	**935**	**1,892**	**1,210**	**1,069**	**2,842**	**3,521**	**814**	**1,295**	**3,673**	**1,457**	**3,666**	**4,067**
Growth (%)												
Revenue growth	(5.2)	8.7	12.1	13.6	(3.3)	1.3	26.3	40.0	1.0	5.1	6.9	16
EBITDA growth	29	11.0	19.1	9.9	(9.0)	17	15	21	13.3	0	6	28
Recurring PAT growth	8.7	21	23	15	10.0	4.3	17	24	11.4	(18)	27	31
Ratios												
Gross margin (%)	52.5	53.3	52.2	50.4	51.6	52.1	53.0	52.2	53.7	54.3	54.9	55.5
EBITDA margin (%)	15.5	15.8	16.8	16.3	15.3	17.7	16.1	14.0	15.7	15.0	14.9	16.6
Net debt/equity (X)	0.3	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Book value (Rs/share)	63.3	73.3	82.8	91.1	98.1	112.4	124.5	148.5	164.3	180.1	200.3	226.8
RoAE (%)	12.2	12.8	13.9	13.8	14.4	14.7	14.7	15.6	14.5	12.4	12.2	14.7
RoACE (%)	9.8	10.9	12.3	12.7	13.6	14.1	13.5	13.4	13.5	11.7	11.6	13.9

Source: Company, Kotak Institutional Equities estimates

Praj (upgrade to BUY from ADD, FV: Rs740): A preferred play on decarbonizing mobility

Praj Industries is a multi-pronged play on decarbonization at a global level and primarily in areas (excluding SAF) where the requirement for subsidy support is limited. Moreover, the company has a commercial offering and a strong market positioning in many of these segments. Of the opportunities, we remain most positive of the impending uptick in investments in CBG, especially post announcement of large investments by Reliance in this business. The recent price correction builds in the near-term impact of underutilized ETCA facility in Mangalore (shaves off 2% from PAT margin).

- **GenX Facility cost inside near-term estimates; steady progress toward revenue accretion from 2HFY26.** The GenX facility of Praj (expected to cater to the ETCA demand globally) faced initial delays due to the need for various customer visits & approvals, and certifications in place. However, it has now cleared them (on a delayed timeline by 6 months), with four customers already approving the facilities. The facility is now fully operational and ready for business development in parallel to onboard more customers (2 customers in discussion). The intent to onboard customers is from a multi-year contract basis rather than approaching on a single order basis. The company is specifically looking up to select customers who already have capex requirements (ex-SAF) and technology in place for their ETCA transition. The GenX facility is now live with all capacities and employees in place, which is expecting to see multi-million-dollar contracts per customer. While the year has seen limited contribution from topline and a cost of around Rs2-3 bn due to GenX capacity going live, the same would start seeing topline contribution from 2HFY26. The company is aspiring to reach 60-70% utilization in 2027 (Rs20 bn revenue potential of GenX facility) for which a Rs15-18 bn ordering is to happen in 2026. Essentially, the ETCA orders involve a similar job mix of engineering and modularization undertaken for multinationals who has requirements across the globe. The capex of Rs3 bn incurred is partly toward lease payments of the facility (Rs1.5 bn), equipment (Rs0.8 bn), and for future expansion (Rs0.7 bn) when required. The revenue recognition from the ETCA opportunity is expected to be margin accretive (return accretive as well) in comparison to current engineering business.

- **Our visit to the India Energy Week 2025 also reaffirmed the thesis for bio-energy**. India Energy Week 2025 witnessed increased participation than last year across the bioenergy ecosystem: (1) equipment manufacturing companies displayed their expanded product portfolio, (2) select end-producers showed affinity toward adopting 2G ethanol offerings, (3) OMCs doubled up on CBG investments, (4) automobile OEMs introducing expanded range of bioenergy-based PV models, (5) key participants undertaking infrastructure expansion for bioenergy offtake (CGD pipeline, distribution outlets) and (6) even private individuals are assessing investment prospects in CBG. We expect the bioenergy ecosystem to rapidly pick up pace ahead, as stakeholders get comfortable around the cost economics, choice of feedstock, regulatory guidelines and strength of end demand.

- **Global Bio fuel Alliance (GBA) initiative picking up traction.** An initiative by India as the G20 chair, GBA is an alliance of governments, international organizations, and industries, aiming to drive development and deployment of biofuels. With 25 countries and 12 international organizations already forming the alliance, a few countries have already initiated their capex plans for achieving their ethanol blending targets in place to reduce crude imports dependency and enable energy security. Tanzania is one among the GBA, planning 20% blending by CY2025 where the country already consumes ~1 bn liter of petrol. Praj has recently received a significant contract from the region to set up a sugar feedstock-based ethanol plant, undertaking the entire EPC job (incl. construction activities), which lays emphasis on the significant TAM opportunity for Praj in the GBA nations.

  We see a ~200 bn liter of petrol consumption happening across the GBA countries (ex-USA), of which a 10% higher blending from current levels would imply requirement of 20-25 bn liter of ethanol capacity requirement (similar to capacities seen in India till date to achieve a 19% blend). We assume a similar quantum happening in next five years of which we expect Praj to see a 7% market share (12% market share in global ethanol production ex-China). With 41 years of legacy, presence across 100+ countries, 400+ overseas references, Praj stands as a competitive & relevant player in the global bio ethanol TAM prospects.

Exhibit 14: Ethanol blending mandates across Global Bio fuel Alliance countries

Country	Blending mandate	Ethanol consumption	Petrol consumption	Blending in place	Industry outlook
	In %	In bn. Lit	In bn. Lit	In %	
Argentina	12.0	1	11.0	10.0	Domestic ethanol producers have petitioned the government to increase the national blend from E12 to E15 and eventually E20, however this is resisted by the automotive sector.
Brazil	27.5	12	44.0	27.3	Govt. in talks to increase blending mandate to 30%, eco system looking to undertake 2G ethanol capacities
Canada	5.0	2	45.5	5.0	No incremental targets to increase blending
India	20.0	10	50.0	19.0	Govt. planning to increase blending to 25%
Italy			10.8		EU countries targeting 7.5% 2G ethanol blending by 2030
Japan	20.0	1	44.5	1.9	Govt. planning 20% blending by 2040
South Africa	4.5	—	9.0	—	Govt. target of 4.5% includes 2% 1G ethanol and rest as 2G ethanol. Bans use of corn for biofuel production.
USA	10.0	57	511.2	11.1	No change in blending mandates since 2 decades
Burundi	—	—	0.2	—	No mandates in place till date
Finland			1.7		EU countries targeting 7.5% 2G ethanol blending by 2030
Guyana	10.0	—	0.2	0.0	Govt's 10% blending mandate in 2013 didn't fructify
Hungary			2.1		EU countries targeting 7.5% 2G ethanol blending by 2030
Kenya	10.0	—	2.2	—	Unable to reach mandate due to lack of domestic feedstock, legal framework to regulate supply chain and concerns over food security.
Panama	10.0	—	1.1	—	Finalizing blending target of 10% to achieve by 2026.
Paraguay	25.0	—	0.9		
Philippines	10.0	—	6.3		Studies underway for 20% ethanol blending in the country, while it imports 10% blended gasoline currently
Seychelles	—	—	0.1	—	No mandates in place till date, looking at Ethanol & CBG opportunities to utilize bio waste in the region
Sri Lanka	—	—	1.9	—	Looking to import ethanol from India
Tanzania	20.0	—	0.9	—	Govt. planning 20% blending by 2025
Uganda	20.0	—	1.1	—	Govt. planning 20% blending
Bangladesh	—	—	0.6	—	Looking to import ethanol from India
Total			**745**		

Source: TheGlobalEconomy, Kotak Institutional Equities

Praj spent higher R&D expenses to the tune of ~2% of sales on average in last 6 years

Exhibit 15: R&D-linked spends of Praj Industries, March fiscal year-ends, 2019-24 (Rs mn)

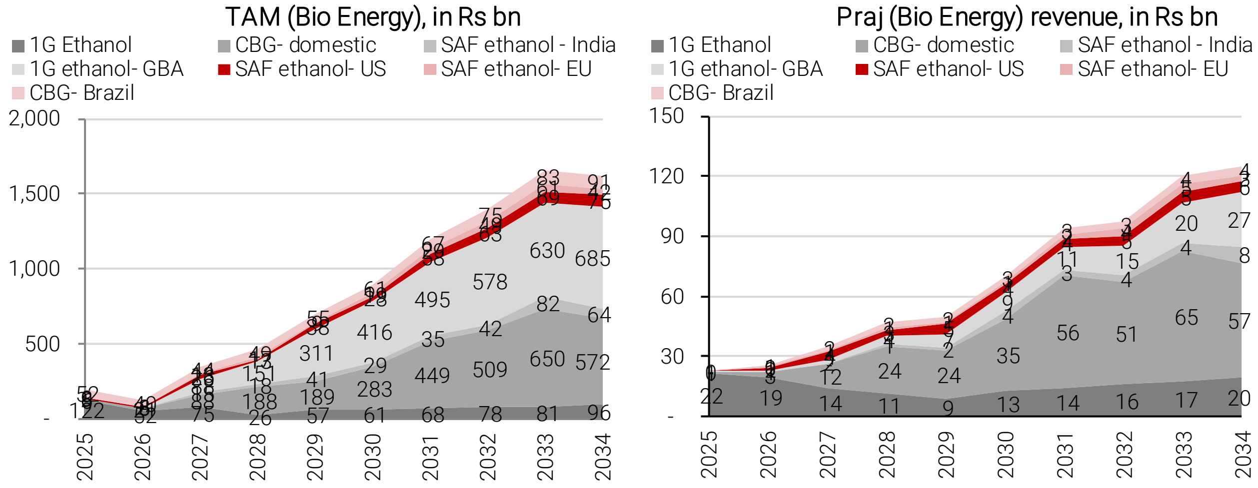
	2019	2020	2021	2022	2023	2024
R&D expensed	168	199	168	232	356	385
R&D expensed (as % of sales)	**1.5**	**1.8**	**1.3**	**1.0**	**1.0**	**1.1**
R&D capitalized	27.3	31.9	44.7	38.8	43	592
R&D capitalized (as % of sales)	**0.2**	**0.3**	**0.3**	**0.2**	**0.1**	**1.7**
Total R&D expense (as % of sales)	**1.7**	**2.1**	**1.6**	**1.2**	**1.1**	**2.8**

Source: Company, Kotak Institutional Equities

- **At the start of the journey of several new TAMs hereon**. We expect the bioenergy portfolio to drive the 17% CAGR over the next decade. The bioenergy portfolio is currently dominated by the domestic 1G ethanol-linked revenues, which we anticipate broadly to be flat over the medium term and eventually decline in absolute terms to a sub-15% revenue share in the bioenergy portfolio. We expect new businesses that Praj has been invested in for long and recently won initial orders to drive growth. These represent a US$106 bn (~Rs8 tn) TAM over the next decade and include both domestic (compressed biogas) and global (sustainable aviation fuel, global biofuel alliance and compressed biogas) businesses. The engineering business of Praj would also grow at a fast pace due to increased acceptance of its modularized engineering solutions, for which the company has recently put in its single-largest investment across any business line. What we do not build in over the next decade are business opportunities in (1) 2G ethanol, (2) bioplastics, (3) ethanol blending with diesel and (4) marine biofuels. We expect these to mature over the course of time and drive meaningful growth for Praj beyond the next decade. The timely introduction of a carbon tax in India can accelerate positive developments for these business opportunities.

Incremental growth for Praj to come from CBG and SAF offerings, with increasing adoption of ethanol in new regions through GBA

Exhibit 16: TAM and segmental revenue for Praj's bioenergy offering (Rs bn)



Source: Company, Kotak Institutional Equities estimates

Our US$106 bn TAM over the next decade does not include optionalities of 2G ethanol and ethanol for biodiesel blending

Exhibit 17: Total Addressable Market for Praj Industries- Bio energy portfolio (US$ bn)

TAM	CY2024-34 in US$ bn	Key assumptions
Business prospects where Praj has either won or expects to win orders in the near term		
1G Ethanol- domestic	10	27% ethanol blending, 4% fuel requirement growth
CBG- domestic	36	15% natural gas blending, 5% natural gas requirement growth
SAF ethanol- domestic	4	10% SAF blending, 10% ATF requirement growth
1G ethanol- GBA	40	GBA countries to require ~55 bn lit ethanol capacity for 10-12% ethanol blending
SAF ethanol- EU	4	15% SAF blending, 1% ATF requirement growth
SAF ethanol- US	6	15% SAF blending, 3% ATF requirement growth
CBG- Brazil	7	6% natural gas blending, 5% natural gas requirement growth
Total	**106**	
Optionalities		
2G ethanol- EU	9	5.5% 2G ethanol blending requiring 6 bn lit capacity
Bio-diesel-India	9	5% diesel blending using ethanol
Total	**18**	

Praj Industries	FY2024-34 in US$ bn	Key assumptions
1G Ethanol- domestic	1.9	62% market share, 35% value addition of total plant capex
CBG- domestic	3.9	20% market share, 50% value addition of total plant capex
SAF ethanol- domestic	0.3	20% market share, 50% value addition of total plant capex
1G ethanol- GFA	1.2	7% market share, 50% value addition of total plant capex
SAF ethanol- EU	0.2	15% market share, 50% value addition of total plant capex
SAF ethanol- US	0.5	15% market share, 50% value addition of total plant capex
CBG- Brazil	0.3	10% market share, 50% value addition of total plant capex
Total	**8.0**	

Source: Kotak Institutional Equities estimates

- **CBG a strong near-term opportunity that may start contributing meaningfully from FY2027**. We assume a large US$36 bn (Rs2.9 tn) capex is required for reaching a 15% natural gas blending rate by FY2034 (KIE estimate) against the firm 5% CNG blending target government mandate set for FY2029. The fact that the biomethane is a natural substitute for such requirements and thus, does not need to be blended, a larger than 15% share of CNG+PNG demand can eventually come from such biogas. This provides a larger top-line and a much higher runway for growth to Praj than what 1G domestic ethanol gave for blending with petrol, at a lower market share versus that of 1G domestic ethanol. Praj has displayed its demo plant capabilities and has been able to stabilize the output for the three key raw materials, including Napier grass, for key clients who have ordered in 2024.

The ecosystem is expected to develop ahead with CBG pricing linked to CNG prices (80% of CNG price), triangulation of suitable locations that can reduce transportation costs for raw material collection and integration of offtake to the city gas distribution (CGD) network. Our discussion with industry stakeholders suggests a healthy equity IRR profile of 15%+ for CBG producers, once a plant reaches optimal utilization and offtake. Our imperative for Praj is to see a commendable 25% market share in the CBG space, which sees limited competition in the country at the moment. The ordering for the same is expected to pick up more aggressively in 2026 and thereby, reflect in revenue from 2027 for Praj. We factor in only 50% of the opportunity for the company's top-line, limiting its participation to the process engineering part of projects (key capabilities of Praj) and partnering with other players for the construction part.

We expect the incremental capacity addition to continue growing, requiring ~13 mn ton of CBG capacity by 2034

Exhibit 18: CBG capacity and Indian natural gas requirement (mn ton), CBG blending (%)

											CAGR (%)		
(mn ton)	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2021-24	2025-29E	2029-34E
Domestic CBG blending													
CNG/PNG requirement	11	12	13	13	14	15	16	17	18	19	16	6	6
Other Natural gas requirement	35	37	39	41	43	45	47	50	52	55	(3)	5	5
CNG/PNG blending (%)	0.3	1.0	1.4	3.3	5.0	7.0	9.0	11.0	13.0	15.0			
Other Natural gas blending (%)	—	—	0.8	2.0	3.0	4.5	7.0	9.5	12.5	14.5			
CBG capacity in place	**0.0**	**0.1**	**0.6**	**1.5**	**2.3**	**3.6**	**5.6**	**7.7**	**10.4**	**12.7**	**NA**	**NA**	**40**
Incremental capacity addition	**0.0**	**0.1**	**0.4**	**0.9**	**0.9**	**1.3**	**2.0**	**2.2**	**2.7**	**2.3**			
YoY capacity growth (%)		224.0	308.4	106.8	(2.6)	45.6	53.9	9.9	24.0	(14.6)			
Capex requirement (Rs bn)	6	21	88	188	189	283	449	509	650	572			
Total Addressable Market (Rs bn)	**2,956**												

Source: Kotak Institutional Equities estimates

Exhibit 19: Financial summary of Praj Industries (consolidated), March fiscal year-ends, 2015-27E (Rs mn)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Income statement													
Net revenues	**10,122**	**10,236**	**9,150**	**9,166**	**11,411**	**11,024**	**13,047**	**23,433**	**35,280**	**34,663**	**33,356**	**36,926**	**49,134**
Total operating expenses	(9,192)	(9,095)	(8,463)	(8,651)	(10,618)	(10,243)	(11,923)	(21,495)	(32,202)	(30,944)	(29,845)	(33,039)	(43,715)
EBITDA	**930**	**1,141**	**687**	**515**	**793**	**780**	**1,123**	**1,938**	**3,078**	**3,719**	**3,512**	**3,887**	**5,418**
Depreciation & Amortization	(378)	(250)	(221)	(241)	(230)	(219)	(221)	(226)	(303)	(441)	(837)	(833)	(832)
EBIT	**552**	**891**	**465**	**274**	**564**	**562**	**902**	**1,712**	**2,776**	**3,278**	**2,674**	**3,055**	**4,587**
Other income	337	184	223	267	323	300	257	362	458	435	514	674	829
Interest expense	(25)	(20)	(13)	(11)	(8)	(31)	(29)	(25)	(46)	(98)	(176)	(194)	(213)
PBT	**760**	**1,042**	**669**	**478**	**798**	**789**	**1,129**	**2,005**	**3,151**	**3,455**	**3,012**	**3,535**	**5,203**
Tax expense	(82)	(229)	(229)	(135)	(197)	(127)	(320)	(546)	(789)	(941)	(813)	(884)	(1,301)
Adjusted PAT	**678**	**812**	**440**	**343**	**601**	**662**	**808**	**1,459**	**2,362**	**2,515**	**2,199**	**2,651**	**3,902**
Reported PAT	**763**	**825**	**446**	**395**	**682**	**704**	**810**	**1,502**	**2,398**	**2,674**	**2,199**	**2,651**	**3,902**
Recurring EPS	**3.6**	**4.4**	**2.4**	**1.9**	**3.3**	**3.6**	**4.4**	**7.9**	**12.8**	**13.7**	**12.0**	**14.4**	**21.2**
Balance sheet													
Shareholders' funds													
Share capital	355	356	359	362	365	366	367	367	367	367	367	367	367
Reserves & surplus	6,199	6,197	6,738	6,900	7,085	6,826	7,652	8,790	10,413	12,377	14,576	17,227	21,130
Debt	173	160	43	60	—	—	—	—	—	—	—	—	—
Total sources of funds	**6,875**	**6,716**	**7,143**	**7,328**	**7,457**	**7,199**	**8,025**	**9,158**	**10,781**	**12,758**	**14,957**	**17,609**	**21,511**
Net fixed assets	2,417	2,242	2,387	2,387	2,296	2,333	2,216	2,265	2,612	4,551	4,214	3,976	5,179
Net working capital (ex-cash)	1,039	1,336	1,570	1,238	1,046	1,672	187	(398)	194	(258)	12	229	345
Non-current investments	100	207	233	170	680	525	483	791	968	1,367	1,367	1,367	1,367
Cash and bank balances and current investments	2,565	2,065	2,112	2,727	2,598	1,770	4,320	5,824	6,220	6,301	8,568	11,241	13,824
Total application of funds	**6,875**	**6,716**	**7,143**	**7,326**	**7,457**	**7,199**	**8,025**	**9,157**	**10,781**	**12,759**	**14,958**	**17,609**	**21,511**
Free cash flow													
Operating profit before wcap. changes	1,133	1,342	853	810	1,085	1,088	1,240	2,104	3,468	4,009	3,512	3,887	5,418
Change in working capital / other adjustments	270	(470)	(446)	331	(548)	(763)	1,159	223	(1,222)	(971)	(269)	(217)	(116)
Direct tax paid	93	(361)	(205)	(127)	(206)	(178)	(149)	(450)	(625)	(1,045)	(813)	(884)	(1,301)
Net cashflow from operating activites	**1,497**	**511**	**202**	**1,014**	**330**	**147**	**2,251**	**1,877**	**1,621**	**1,994**	**2,429**	**2,787**	**4,001**
Capex	(156)	(126)	(367)	(161)	(142)	(71)	(87)	(185)	(353)	(893)	(500)	(595)	(2,035)
Free cash flow (CFO + net capex)	**1,341**	**385**	**(165)**	**853**	**189**	**75**	**2,164**	**1,692**	**1,268**	**1,101**	**1,929**	**2,192**	**1,967**
Growth (%)													
Revenue growth	3	1	(11)	0	24	(3)	18	80	51	(2)	(4)	11	33
EBITDA growth	17	23	(40)	(25)	54	(2)	44	72	59	21	(6)	11	39
Recurring PAT growth	34	23	(46)	(22)	75	10	22	81	62	6	(13)	21	47
Key ratios													
EBITDA margin (%)	9.2	11.1	7.5	5.6	7.0	7.1	8.6	8.3	8.7	10.7	10.5	10.5	11.0
Net debt/equity (X)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.1)	(0.2)	(0.3)	(0.4)	(0.4)
Net debt/EBITDA (X)	(0.9)	(0.6)	(1.0)	(1.4)	(1.1)	(0.6)	(1.2)	(0.8)	(0.5)	(0.6)	(1.3)	(1.8)	(1.8)
Book value per share (Rs)	36	36	39	40	41	39	44	50	59	69	81	96	117
RoAE (%)	12.3	12.6	6.5	5.5	9.3	9.6	10.7	17.5	24.1	22.7	15.9	16.3	20.0
RoACE (%)	12.6	12.4	6.6	5.6	9.3	10.0	10.9	17.7	24.4	23.5	16.8	17.2	20.8
RoAIC (%)	14.4	19.9	8.5	5.7	12.7	11.1	16.9	45.7	71.6	62.3	43.8	52.0	68.0

Source: Company, Kotak Institutional Equities estimates

We value Praj at Rs740/share, which is 35X 2-year forward EPS

Exhibit 20: DCF valuation of Praj Industries, March fiscal year-ends, 2020-45E

	2020	2021	2022	2023	2024	2025E	2026E	2027E	2034E	2039E	2044E	2045E	2024-34	2034-44
Free cash flow calculation														
Revenue	11.0	13.0	23.4	35.3	34.7	33.4	36.9	49.1	162.6	302.1	504.3	529.5	16.7	12.0
yoy growth (%)	—	18.4	79.6	50.6	(1.8)	(3.8)	10.7	33.1	5.1	12.0	8.0	5.0		
EBIT (excl. other income)	0.6	0.9	1.7	2.8	3.3	2.7	3.1	4.6	16.5	27.7	42.7	45.4	17.6	10.0
EBIT margin (%)	5.1	6.9	7.3	7.9	9.5	8.0	8.3	9.3	10.2	9.2	8.5	8.6		
Effective tax rate (%)	15.3	28.3	26.7	24.8	25.4	27.0	25.0	25.0	25.0	25.0	25.0	25.0		
NOPAT	0.5	0.6	1.3	2.1	2.4	2.0	2.3	3.4	12.4	20.8	32.0	34.0		
Change in working capital (excl. cash)	(0.8)	1.2	0.2	(1.2)	(1.0)	(0.3)	(0.2)	(0.1)	(0.1)	(1.3)	(1.5)	(1.0)		
Depreciation	0.2	0.2	0.2	0.3	0.4	0.8	0.8	0.8	1.8	3.1	4.9	4.9		
Capex	(0.1)	(0.1)	(0.2)	(0.4)	(0.9)	(0.5)	(0.6)	(2.0)	(1.3)	(6.0)	(6.9)	(4.7)		
OCF	(0.1)	2.0	1.7	1.2	1.9	2.5	2.9	4.2	14.1	22.6	35.4	37.9		
FCFF	**(0.1)**	**1.9**	**1.5**	**0.8**	**1.0**	**2.0**	**2.3**	**2.1**	**12.8**	**16.6**	**28.5**	**33.2**		
RoIC (%)	16.8	16.9	45.5	70.5	58.6	40.0	47.3	62.7	74.0	62.3	55.2	56.6		

Fair value		WACC				
Terminal growth rate		11.5	12.0	12.5	13.0	13.5
	4.5	850	780	720	670	630
	5.0	880	810	740	690	640
	5.5	910	830	760	700	650
	6.0	950	860	780	720	660
	6.5	990	890	810	740	680

WACC (%)	**12.5**
Terminal growth rate (%)	5.0

	2025E	2026E	2027E
DCF valuation			
PV of cash flows	56	64	72
PV of Terminal value	44	45	46
EV	**100**	**109**	**118**
Less: Net debt	(4)	(7)	(10)
Equity value	**104**	**116**	**128**
Implied target price (Rs/share)	**571**	**632**	**698**

Mar-2026E-based Fair value (Rs/share)	740
Implied one-year forward earnings multiple (X)	35

Source: Company, Kotak Institutional Equities estimates

Thermax (upgrade to ADD, FV: Rs3,600): Overhang of projects on the mend; product businesses continue to grow well

- **Strong play in energy transition.** Thermax endeavors to position it as a thinking partner for energy transition for the industrial customer. The journey is risky and remunerative at the same time for Thermax. Risky because of the impact it may have on Thermax's existing business models. Remunerative because customers can up to a trusted partner in Thermax while charting their own journey of energy transition. For this journey, Thermax is seeding new businesses in areas with limited competition and reasonable pay-back period. The chances of success in these new businesses are high given (1) Thermax presence across key capabilities in energy transition on both energy management and decarbonization, (2) reliance on local innovation with openness to partner with those with capabilities, (3) shift toward a consultative approach to selling combination of products based on assessment of needs of the customer, (4) its AI/ML based Edge platform where it can share insights related to assets and also enhance its learning in the process and (5) strength of its balance sheet helping it, for instance, to invest in the first few small-sized projects in Hydrogen.

New product offerings of TMX focus on bringing energy efficiency and decarbonization for its customers

Exhibit 21: New product offerings of TMX, March fiscal year-end, 2024

New Product offerings	Use cases	Imperative for India in adopting the products
Coal gasification	Allows for carbon capture and storage of CO2, offering higher thermal efficiency and lower SOx NOx emissions compared to conventional coal consumption	Still in commercial trials globally, coal gasification can help reduce carbon footprint of thermal power plants in the country
Electric boiler	Offers higher efficiency to convert electricity to heat unlike conventional boiler which has losses in the form of waste gases & heat, resulting in lower emissions & energy intensity	Impetus of adoption is dependent on higher renewable energy mix available at a lower cost compared to the conventional gas/coal counter parts
Bio CNG plant	Offers renewable CNG from bio degradable organic materials, that can be used as fuel, enabling waste management and reducing GHG emissions	Success of Bio CNG plant is dependent on cost of procuring supply chain for the raw materials, which is currently offered by TOESL
Heat pumps & Absorption Chillers	Use waste heat from heat intensive processes to provide heating and cooling solutions, resulting in reduced energy intensity and specific energy of the process	The energy intensity of industries in India (Paper, Chemicals, food processing and others) is higher than its devloped counter parts, partly owing to waste heat being unutilized
Flexisource	Uses multiple sources of input (10-15 sources) in different proportions to generate same quantum of heat required.	Paper, grain based and agro based distelleries

Source: Company, Kotak Institutional Equities

- **Another key beneficiary of the impending uptick in CBG spending**. We see Thermax as a relevant player in the CBG space, which is to see adoption ahead toward natural gas blending in the country. We see a ~Rs3 tn TAM for CBG ordering, requiring 13 mn ton of capacities by 2034. Thermax has seen ordering in CBG since 3QFY23, and have also received a large >Rs5 bn order for setting up 5 Bio CNG plants across India in 3QFY24. While the company has been citing concerns on accepting incremental orders in the space owing to persisting issues in achieving plant level output stabilization at desired input of raw materials and energy consumption, we believe Thermax to slowly gain traction in the space as a relevant player, alongside Praj. A TAM of ~Rs3 tn can be a Rs40 bn opportunity per annum in the next 10 years for Thermax, assuming a 10% market share of relevance and Thermax's capabilities to provide an end-to-end EPC offering (unlike Praj who only intends to undertake process engineering that makes up 50% of capex). This translates into a 30 bps higher CAGR for Thermax over 13% CAGR it has seen in past 20 years.

- **CBG ordering to restart in 2HFY26**. Thermax expects strong recovery in compressed bio-gas orders post it handing over the six initial set of projects it won. Three of these are in advanced stages of getting handed over. It anticipates several benefits and hurdles in way of scale-up in CBG ordering; however, it believes that the government is working on all the hurdles coming in way. Our visit to the India Energy Week 2025 also suggests strong interest for incremental investments in CBG from corporate houses, OMCs and individual investors.

We expect the incremental capacity addition to continue growing, requiring ~13 mn ton of CBG capacity by 2034

Exhibit 22: CBG capacity and Indian natural gas requirement (mn ton), CBG blending (%)

											CAGR (%)		
(mn ton)	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2021-24	2025-29E	2029-34E
Domestic CBG blending													
CNG/PNG requirement	11	12	13	13	14	15	16	17	18	19	16	6	6
Other Natural gas requirement	35	37	39	41	43	45	47	50	52	55	(3)	5	5
CNG/PNG blending (%)	0.3	1.0	1.4	3.3	5.0	7.0	9.0	11.0	13.0	15.0			
Other Natural gas blending (%)	—	—	0.8	2.0	3.0	4.5	7.0	9.5	12.5	14.5			
CBG capacity in place	**0.0**	**0.1**	**0.6**	**1.5**	**2.3**	**3.6**	**5.6**	**7.7**	**10.4**	**12.7**	**NA**	**NA**	**40**
Incremental capacity addition	**0.0**	**0.1**	**0.4**	**0.9**	**0.9**	**1.3**	**2.0**	**2.2**	**2.7**	**2.3**			
YoY capacity growth (%)		224.0	308.4	106.8	(2.6)	45.6	53.9	9.9	24.0	(14.6)			
Capex requirement (Rs bn)	6	21	88	188	189	283	449	509	650	572			
Total Addressable Market (Rs bn)	**2,956**												

Source: Kotak Institutional Equities estimates

- **Near-term boost in store.** Thermax expects a strong 4Q on revenue and profitability, partly benefitting from deferral of revenues from 3Q. Legacy projects are close to completion and 4Q may also see some of the change orders and claims getting compensated for. Thermax also sees a strong order booking for the quarter based on return of large sized projects (Rs1 bn and above), which was lacking for the past three quarters.

- **Bulk of the margin issues linked to the large-sized projects and bio-CNG projects.** Our assessment of weak profitability of the Industrial Infrastructure segment suggests meaningful losses for the large-sized projects and bio-CNG segment. These have likely recurred in larger quantum in FY2025, leading to our expectation of ~3% profitability for the Industrial Infrastructure segment in FY2025 versus the weak 4.7% print reported in FY2024. The company expected to breach the 5% mark in FY2026.

Barring the large projects business, the other businesses are doing well on profitability

Exhibit 23: Split of revenues and profitability for the Industrial Products portfolio for March fiscal year-end, 2024

	Revenues (Rs bn)	EBIT margin (%)	EBIT (Rs bn)
TBWES	23	8.0	1.8
O&M services	4	12.0	0.5
Small projects	5	6.0	0.3
Large projects+CBG (implied)	**12**	**(4.4)**	**(0.5)**
Total	**45**	**4.7**	**2.1**

Source: Company, Kotak Institutional Equities estimates

- **Strong pipeline for large-sized projects**. The company has shared revival in order pipeline of the four key sectors for large-sized projects in Industrial Infra—power, steel, cement and refining and petrochemical. The aggregate pipeline is strong even for the international orders for large-sized projects. The same would end the lull for past three quarters on this count. The company has a Rs10 bn of fixed costs in this business and thus the next few months are critical for the company to stage a turnaround on margin.

- **Not bidding for projects with risks beyond existing set of capabilities**. The company has decided not to bid for BTG or related EPC orders for thermal power plants. It will only limit itself to bidding for the boiler portion. It is also avoiding projects with material civil/construction components.

- **Industrial products seeing good traction**. The industrial products portfolio continues to grow business in healthy double-digit levels and low double-digit profitability. Its SustainX portfolio has now crossed the Rs2 bn annualized quarterly rate versus nil orders a year back. The company expects strong growth in this portfolio given (1) the portfolio has a fair amount of application-based selling with the applications across multiple industries, (2) the savings to the customers are also quite substantial and (3) Thermax's capability from a product side is differentiating.

- **Chemicals seeing investments for a stronger future**. The company is investing heavily in construction chemicals. It is also into flooring, which is also where it has announced a partnership with Vebro. Thermax is also close to announcing one more partnership. It is also investing in portions of chemicals business, leading to additional expenses – adding sales people, integration expenses, hiring consultants

Exhibit 24: Financial summary of Thermax (consolidated), March fiscal year-ends, 2018-27E (Rs mn)

	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Profit model										
Total operating income	44,649	59,732	57,313	47,913	61,283	80,898	93,235	107,196	125,605	147,754
Cost of sales and service	(23,493)	(33,367)	(30,857)	(25,386)	(34,850)	(46,247)	(52,196)	(59,494)	(69,711)	(82,004)
Other expenses	(10,180)	(14,116)	(14,404)	(11,387)	(14,090)	(19,134)	(21,582)	(24,119)	(27,884)	(32,358)
Employees	(6,966)	(7,675)	(7,990)	(7,588)	(8,129)	(9,542)	(11,483)	(14,151)	(14,789)	(17,210)
Total operating costs	(40,639)	(55,157)	(53,251)	(44,361)	(57,070)	(74,923)	(85,261)	(97,763)	(112,384)	(131,572)
EBITDA	**4,009**	**4,574**	**4,062**	**3,552**	**4,214**	**5,976**	**7,974**	**9,432**	**13,221**	**16,182**
Other income	1,164	1,499	1,000	1,077	1,270	1,602	2,326	2,832	2,817	2,856
PBDIT	5,173	6,073	5,062	4,629	5,484	7,577	10,300	12,264	16,038	19,038
Financial charges	(129)	(143)	(150)	(206)	(252)	(376)	(876)	(1,051)	(1,261)	(1,514)
Depreciation	(824)	(920)	(1,166)	(1,146)	(1,132)	(1,169)	(1,481)	(1,697)	(2,022)	(2,396)
Pre-tax profit	4,220	5,010	3,745	3,277	4,100	6,033	7,943	9,516	12,755	15,128
Taxation	(1,658)	(849)	(1,621)	(686)	(978)	(1,524)	(2,258)	(2,408)	(3,227)	(3,827)
Adjusted PAT	**2,563**	**4,160**	**2,125**	**2,591**	**3,122**	**4,509**	**5,685**	**7,108**	**9,528**	**11,301**
Reported PAT	**2,321**	**3,254**	**2,125**	**2,066**	**3,122**	**4,509**	**6,453**	**7,108**	**9,528**	**11,301**
Balance sheet										
Shareholders funds	27,147	30,143	30,279	32,514	34,925	38,671	44,398	49,693	57,279	66,637
Loan funds	2,337	2,403	2,115	3,051	3,554	8,105	12,560	17,560	22,560	27,560
Total sources of funds	**29,649**	**32,645**	**32,445**	**35,635**	**38,510**	**46,827**	**57,080**	**67,376**	**79,961**	**94,320**
Net block	8,505	12,788	12,706	12,390	11,917	12,451	19,031	28,333	37,312	45,916
CWIP	1,034	401	553	242	474	4,338	5,248	5,773	6,350	6,985
Net fixed assets	9,539	13,189	13,258	12,632	12,391	16,789	24,279	34,106	43,662	52,900
Investments	15,939	8,624	9,105	2,375	14,765	16,370	17,681	17,681	17,681	17,681
Cash balances	2,940	3,691	4,761	19,392	9,535	11,316	9,753	9,580	11,765	15,867
Net current assets excluding cash	150	4,922	3,767	(374)	516	1,266	4,282	4,923	5,768	6,785
Total application of funds	**29,649**	**32,644**	**32,445**	**35,635**	**38,510**	**46,827**	**57,080**	**67,376**	**79,961**	**94,320**
Cash flow statement										
Operating profit before working capital changes	4,359	5,201	4,350	3,899	4,284	6,736	9,095	9,432	13,221	16,182
Change in working capital / other adjustments	2,748	(4,485)	218	4,734	(5)	(628)	(4,760)	(641)	(845)	(1,017)
Net cashflow from operating activites	**5,336**	**(1,154)**	**3,256**	**7,695**	**3,248**	**4,596**	**2,473**	**6,384**	**9,148**	**11,338**
Fixed Assets	(2,004)	(1,547)	(480)	(834)	(838)	(6,499)	(8,474)	(11,525)	(11,577)	(11,635)
Free cash flow	**3,332**	**(2,701)**	**2,776**	**6,861**	**2,411**	**(1,904)**	**(6,002)**	**(5,141)**	**(2,429)**	**(297)**
Growth (%)										
Revenue growth	(0.4)	33.8	(4.0)	(16.4)	27.9	32.0	15.2	15.0	17.2	17.6
EBITDA growth	(7.4)	14.1	(11.2)	(12.6)	18.6	41.8	33.4	18.3	40.2	22.4
Recurring PAT growth	(14.4)	62.3	(48.9)	22.0	20.5	44.4	26.1	25.0	34.0	18.6
Key ratios (%)										
Raw material / sales	52.6	55.9	53.8	53.0	56.9	57.2	56.0	55.5	55.5	55.5
Other expenses / sales	22.8	23.6	25.1	23.8	23.0	23.7	23.1	22.5	22.2	21.9
Employee expense / sales	15.6	12.8	13.9	15.8	13.3	11.8	12.3	13.2	11.8	11.6
Gross margin	**47.4**	**44.1**	**46.2**	**47.0**	**43.1**	**42.8**	**44.0**	**44.5**	**44.5**	**44.5**
EBITDA margin	**9.0**	**7.7**	**7.1**	**7.4**	**6.9**	**7.4**	**8.6**	**8.8**	**10.5**	**11.0**
PAT margin	5.7	7.0	3.7	5.4	5.1	5.6	6.1	6.6	7.6	7.6
RoE	8.8	14.5	7.0	8.3	9.3	12.3	13.7	15.1	17.8	18.2
RoCE	8.5	13.8	6.8	8.1	9.0	11.2	12.2	12.7	14.2	14.3
EPS (consol) (Rs)	**20.6**	**36.9**	**18.9**	**23.0**	**27.7**	**40.0**	**50.6**	**63.1**	**84.6**	**100.4**

Source: Company, Kotak Institutional Equities estimates

Siemens (FV: Rs5,000, REDUCE): Margin moderation inside estimates; uncertainty linked to endgame of demerger the key risk

The recent weakness in the results reflect the Digital Industries business again correcting back to mid-single digit levels from the mid-double-digit highs seen in FY2023. With the same inside estimates, the key incremental risk relates to the demerger. Siemens still trades at a premium on one-year forward PE multiples to ABB. On an absolute basis, it factors in ~16% PAT CAGR over the next 20 years.

- **Demerger leads to swap of shareholding between promoters, creating uncertainty**. With the demerger scheduled for CY2025, the stake transfer between the two promoter entities becomes relevant. The mirror shareholding principle in the vertical demerger would lead to a similar 69% and 5% shareholding in the two entities of energy and remaining businesses of Siemens India. Siemens Energy has clarified that it will accumulate a controlling stake in the energy business of Siemens India through a share swap (6% stake sale of the non-energy business of Siemens India) and buying the remaining stake at market prices. As per past communication for Siemens Energy, this would happen over the next three years. The potential stake by Siemens Energy can have an impact on the margin/revenues of the energy business for Siemens India in the power T&D segment. For the year gone by, Siemens India depends on Siemens Energy for (1) the purchase of goods and services (~2.5% of overall sales), (2) revenues (~2.5% of overall sales) and (3) license fees (~2% of overall EBITDA and 1% of Energy segment sales). Any change in license fees for the Energy segment in excess of the concomitant increase in revenue opportunity may lead to a margin dilution for the demerged energy business. We highlight that the LV motors business (housed in portfolio of companies) has seen a marked reduction in EBIT margin by 400 bps over the period of the promoter changing from Siemens AG to KPS Capital Partners.

Innomotics' license fees for FY2024 account for 2.6% of motors sales versus negligible levels seen the prior year

Exhibit 25: Key RPTs for the standalone entity of Siemens India, September fiscal year-ends, 2020-24 (Rs mn)

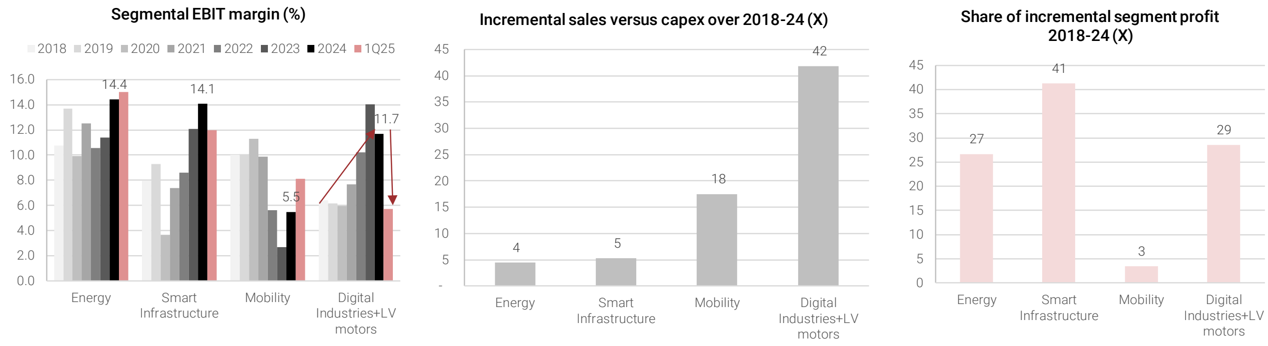
	2020	2021	2022	2023	2024	Comment
Purchase of goods and services						
Siemens Mobility GmBh	810	1,312	2,024	2,898	6,232	Quantum has become 8X and accounted for 26% of all operating costs of the Mobility segment
License fees						
Siemens AG	296	512	818	960	970	
Innomotics			0	35	268	Accounts for 2.6% of sales of motors, much higher than share of license fees in aggregate sales of Siemens India
Siemens Energy Global GmbH & Co. KG	160	361	297	565	572	
Siemens Mobility GmbH			10	25	57	

Source: Company, Kotak Institutional Equities

On a separate note, the demerger and the related share swap would leave Siemens AG with a sizeable ~25% stake in the non-energy India business of Siemens (assuming Siemens Energy is content with majority 51% shareholding in the related India business). If the history of Siemens AG's stake in the Siemens Energy (global) and current thought process is taken as the guiding light, Siemens AG may continue to bring down such remaining stake in its India Energy business. Expectation of such quantum of supply in a stock lead to a quick take-out of the narrative linked to the Energy business.

Digital Industries segment has accounted for large share of incremental profits by expanding margin to double-digit levels in spite of the capex intensity being low

Exhibit 26: Key metrics from past five years of performance of Siemens India (standalone), September fiscal year-ends, 2018-24



Source: Company, Kotak Institutional Equities

Siemens' recent full-year results suggest that uptick in investments has just started

Exhibit 27: Key lead indicators of investment for Siemens, March fiscal year-ends, 2014-24

	Unit	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Comment
Capex	Rs mn	1,917	2,510	2,979	2,863	1,903	1,197	172	1,177	1,560	2,020	3,125	Capex has matched depreciation levels for the first time since 2018
Depreciation	Rs mn	2,291	2,156	2,264	1,966	1,967	2,173	2,504	3,005	3,171	3,208	3,296	
Purchase of stock-in-trade + project bought-outs as share of overall RM cost	%	65	63	60	53	64	70	70	70	70	71	71	The quantum remains at elevated peak levels versus historical range prior to FY2019
Employee cost (standalone)	Rs mn	14,118	13,831	14,529	13,926	14,487	15,475	15,404	15,516	16,582	18,531	21,206	Employee cost is up 4.5% CAGR versus 7% CAGR in revenues

Source: Companies, Kotak Institutional Equities

Exhibit 28: Siemens financials, September fiscal year-ends, 2016-27E (Rs mn)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Income statement - assumes discontinued operations inside single line-item (PAT) from FY2024												
Sales	**108,095**	**110,148**	**127,251**	**130,005**	**98,694**	**136,392**	**161,378**	**195,538**	**160,817**	**169,465**	**195,411**	**223,675**
Expenses	(97,891)	(99,636)	(114,090)	(114,890)	(88,791)	(121,207)	(143,805)	(170,667)	(139,615)	(148,171)	(170,865)	(195,455)
RM	(71,812)	(73,505)	(85,864)	(87,561)	(63,207)	(93,117)	(109,263)	(133,912)	(112,891)	(118,962)	(137,176)	(157,017)
Other expenses	(11,940)	(12,205)	(13,739)	(11,854)	(10,180)	(11,173)	(16,485)	(16,619)	(12,167)	(12,070)	(14,632)	(17,403)
Employee expenses	(14,139)	(13,926)	(14,487)	(15,475)	(15,404)	(16,917)	(18,057)	(20,136)	(14,557)	(17,139)	(19,058)	(21,035)
EBITDA	**10,204**	**10,512**	**13,161**	**15,115**	**9,903**	**15,185**	**17,573**	**24,872**	**21,202**	**21,294**	**24,546**	**28,221**
Other income	1,644	2,547	2,800	3,940	3,099	2,265	3,078	4,962	8,771	7,214	8,587	10,046
Interest	(91)	(77)	(82)	(112)	(292)	(246)	(363)	(228)	(440)	(484)	(532)	(586)
Depreciation	(2,264)	(1,966)	(1,967)	(1,980)	(2,504)	(3,005)	(3,171)	(3,208)	(2,556)	(2,916)	(3,069)	(3,258)
PBT	9,493	11,016	13,912	16,963	10,206	14,199	17,117	26,397	26,977	25,107	29,532	34,424
Tax	(3,146)	(3,982)	(4,973)	(5,732)	(2,632)	(3,698)	(4,498)	(6,778)	(6,773)	(6,449)	(7,586)	(8,842)
Net profit	**6,347**	**7,034**	**8,939**	**11,231**	**7,574**	**10,501**	**12,619**	**19,619**	**20,204**	**18,658**	**21,946**	**25,581**
Extraordinary items	22,824	4,302	—	(362)	(9)	403	2,811	—	—	—	—	—
Discontinued oeprations	—	—	—	—	—	—	—	—	6,977	8,995	10,749	12,845
RPAT	29,171	11,336	8,939	10,869	7,565	10,904	15,430	19,619	27,181	27,653	32,695	38,426
EPS (Rs)	**17.8**	**19.8**	**25.1**	**31.5**	**21.3**	**29.5**	**35.4**	**55.1**	**76.3**	**77.7**	**91.8**	**107.9**
Balance sheet - assumes discontinued operations inside induvidual line items												
Equity share capital	712	712	712	712	712	712	712	712	712	712	712	712
Reserves & surplus	65,107	76,335	82,342	89,724	94,028	102,778	115,390	130,159	152,855	173,283	197,436	225,821
Shareholders funds	65,819	77,047	83,054	90,436	94,740	103,490	116,102	130,871	153,567	173,995	198,148	226,533
Loan funds	—	—	—	—	—	25	—	—	—	—	—	—
Total sources of funds	**65,819**	**77,047**	**83,054**	**90,436**	**94,740**	**103,596**	**116,178**	**130,957**	**153,661**	**174,089**	**198,242**	**226,627**
Gross block	27,757	16,348	18,420	19,702	18,583	30,130	31,906	31,273	34,132	37,897	42,039	46,595
Accumulated depreciation	(15,802)	(4,083)	(5,948)	(7,798)	(8,792)	(10,774)	(13,945)	(14,118)	(16,223)	(19,139)	(22,209)	(25,466)
Net block	11,955	12,265	12,472	11,904	11,651	19,344	17,961	17,045	17,909	18,758	19,831	21,129
CWIP	791	1,430	624	583	880	350	517	501	1,033	1,033	1,033	1,033
Net fixed assets	12,746	13,695	13,096	12,487	12,531	19,694	18,478	17,656	18,942	19,791	20,864	22,162
Cash balances	35,094	40,713	36,457	48,913	55,517	51,591	65,841	76,507	95,679	116,480	139,566	167,052
Net current assets excl. cash	13,079	18,569	29,244	26,076	19,723	19,134	17,570	21,924	23,013	24,251	27,963	32,008
Net deferred tax assets	3,253	2,442	2,665	2,410	2,481	473	975	1,627	2,796	2,796	2,796	2,796
Total assets	**65,819**	**77,047**	**83,054**	**90,436**	**94,740**	**103,596**	**116,178**	**131,067**	**153,659**	**177,198**	**205,069**	**237,898**
Cash flow statement												
Operating profit before working capital	9,867	11,908	14,617	13,983	11,133	15,617	18,619	26,404	31,715	33,400	39,014	45,508
Working capital changes	(1,292)	1,744	(8,361)	4,452	(1,426)	2,339	(3,619)	(4,371)	(6,706)	(1,238)	(3,713)	(4,045)
Direct taxes	(3,493)	(8,114)	(5,834)	(6,130)	(2,942)	(3,735)	(5,215)	(8,033)	(8,314)	(6,449)	(7,586)	(8,842)
Cash flow from operations	5,082	5,538	422	12,305	6,765	14,221	9,785	14,000	16,695	25,713	27,715	32,621
Capex	(2,874)	3,289	(1,788)	(336)	(98)	(1,074)	(1,313)	(664)	(1,022)	(3,765)	(4,142)	(4,556)
Free cash flow	**2,208**	**8,827**	**(1,366)**	**11,969**	**6,667**	**13,147**	**8,472**	**13,336**	**15,673**	**21,948**	**23,573**	**28,065**
Growth (%)												
Revenue growth	2.8	1.9	15.5	2.2	(24.1)	38.2	18.3	21.2	(17.8)	5.4	15.3	14.5
EBITDA growth	4.5	3.0	25.2	14.8	(34.5)	53.3	15.7	41.5	(14.8)	0.4	15.3	15.0
Recurring PAT growth	58.5	10.8	27.1	25.6	(32.6)	38.6	20.2	55.5	3.0	(7.7)	17.6	16.6
Key ratios (%)												
Gross margin	33.6	33.3	32.5	32.6	36.0	31.7	32.3	31.5	29.8	29.8	29.8	29.8
EBITDA margin	**9.4**	**9.5**	**10.3**	**11.6**	**10.0**	**11.1**	**10.9**	**12.7**	**13.2**	**12.6**	**12.6**	**12.6**
PAT margin	5.9	6.4	7.0	8.6	7.7	7.7	7.8	10.0	12.6	11.0	11.2	11.4
RoE	10.8	9.8	11.2	12.9	8.2	10.6	11.5	15.9	19.1	16.9	17.6	18.1
RoCE	10.7	9.8	11.1	12.9	7.9	10.4	11.2	15.7	18.9	16.7	17.4	17.9

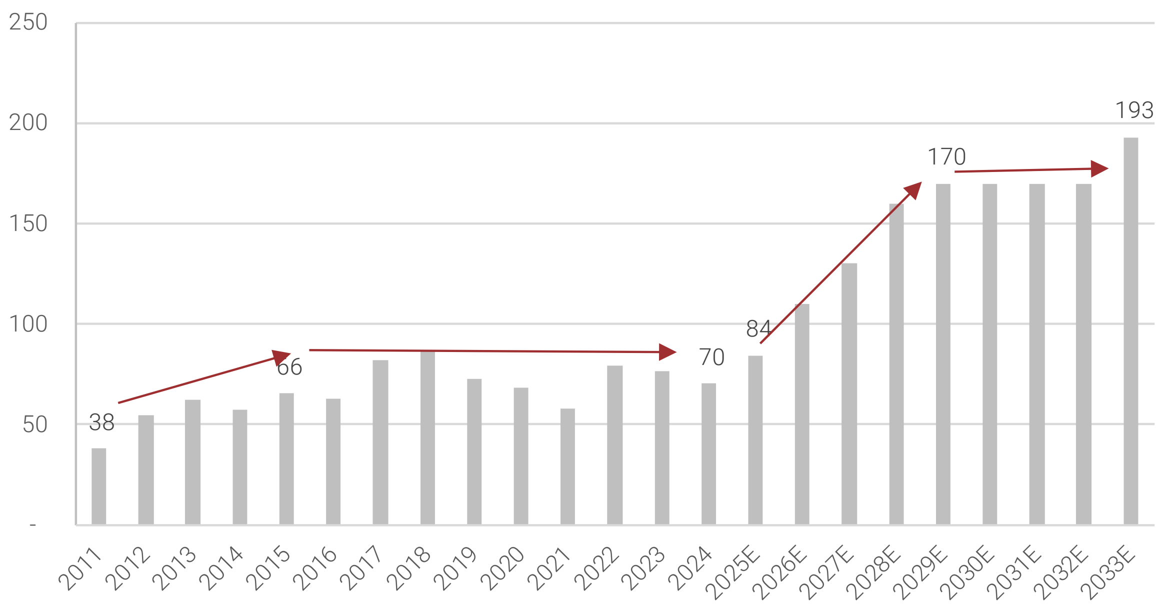
Source: Company, Kotak Institutional Equities estimates

CGPOWER (FV: Rs520, SELL): Growth opportunities in domestic may be short-lived

- **Domestic T&D, a 3-year strong growth opportunity, flattening for the next three years.** The estimates of National Electric Plan suggest doubling of the substation installed capacities by FY2032. The trends in installed capacity addition for power transformers would mirror the trend in substation. The implied requirements of capacity additions every year suggest doubling of activity from FY2025 base and then flat-lining over the remaining 4 years. The margin should healthy comparable to FY2025 levels all through this period and thus should be healthy (mid-to-high teens for CGPOWER). Note that FY2025 was the year of high margin for the industry. The constraint would be more linked to revenue growth as highlighted beyond the next three years. Any incremental capacities of power transformers. Key risks to margin would emanate from (1) CGPOWER and peers more than doubling power transformer capacities and not finding concomitant demand outside India (2) misses in power demand versus those estimated in the National Electricity Plan.

We expect demand for substation/transformer capacity to double up over FY2025 base over 3-4 years and then flatten for 3-4 years

Exhibit 29: Substation capacity addition in India, March fiscal year-ends ('000 MVA)



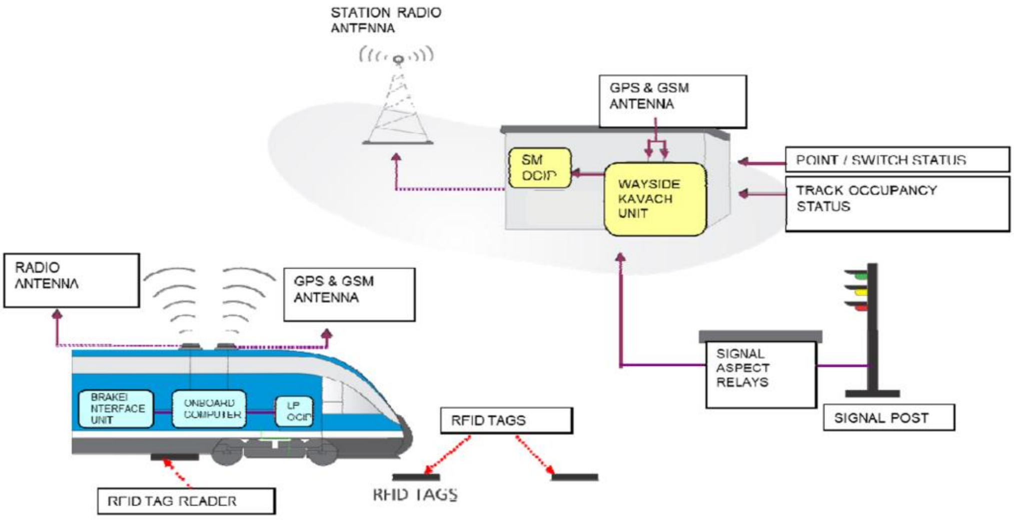
Notes:
(a) We assume NEP target of doubling installed capacity base of substation over FY2024-32
(b) We assume FY2033 quantum at 8% yoy growth in installed base of FY2032

Source: CEA, Kotak Institutional Equities estimates

- **A Rs460 bn capex opportunity for KAVACH to fructify for select players with relevant capabilities.** Post the draft specification in 2013, Kavach was commercialized in 2020, with an outlook of implementing the Automatic train protection system (Train Collision Avoidance System - TCAS) across the rail network and locomotives, i.e., 68,000 track km length, 7,349 railway stations, and 15,200 locomotives retrofitted with electronic configuration required for the exchange of signaling information between station interlocking and locomotive over a radio network using 5 spot frequencies in Ultra High Frequency range.

Installation of electronic equipment required in both stations & locomotives, alongside infra requirement along tracks

Exhibit 30: Capex requirements for integration of KAVACH with existing infra



Source: Indian Railways, Kotak Institutional Equities

The requirement for participation in KAVACH tendering is specific to Indian manufacturing players who have carried out design and development of software embedded control systems with its field trials in the field of Train Protection or Train Collision Avoidance or indigenous manufacturer of software embedded Railway Signaling products such as Electronic Interlocking (EI), Single Section Digital Axle Counter (SSDAC), Multi Section Digital Axle Counter (MSDAC), Data loggers for logging signaling events, Solid State Block Proving Axle Counter (SSBPAC) and Universal Fail-Safe Block Interface (UFSBI). The same limits participation to only select players who have the required capabilities and displayed commercialization of the same. This includes HBL Power Systems, Kernex, Medha Servo Drives as approved OEM vendors of Indian Railways for KAVACH participation, while G.G Tronics, a recent acquisition of CG Power, also has the product portfolio to offer KAVACH. A key imperative is the specification of tendering include orders being awarded by RDSO for design, development, supply and trial of TCAS with multi-vendor interoperability features to avoid single agency dependency and promote competition, enabling equal foot for all the relevant players with capabilities.

The KAVACH opportunity has seen a capex of Rs15 bn to date in past 4 years since commercialization, making a slow start toward achieving a total capex of Rs460 bn, of which Rs120 bn is toward equipment required in the locomotives. The same is expected to pick up pace ahead with Rs45 bn of the capex in bidding stage and Rs155 bn under implementation stage.

Kavach implementation is progressing tepidly owing to supply constraints and execution risk involving disruption of Indian Railways daily scheduling

Exhibit 31: Kavach progress undertaken in India

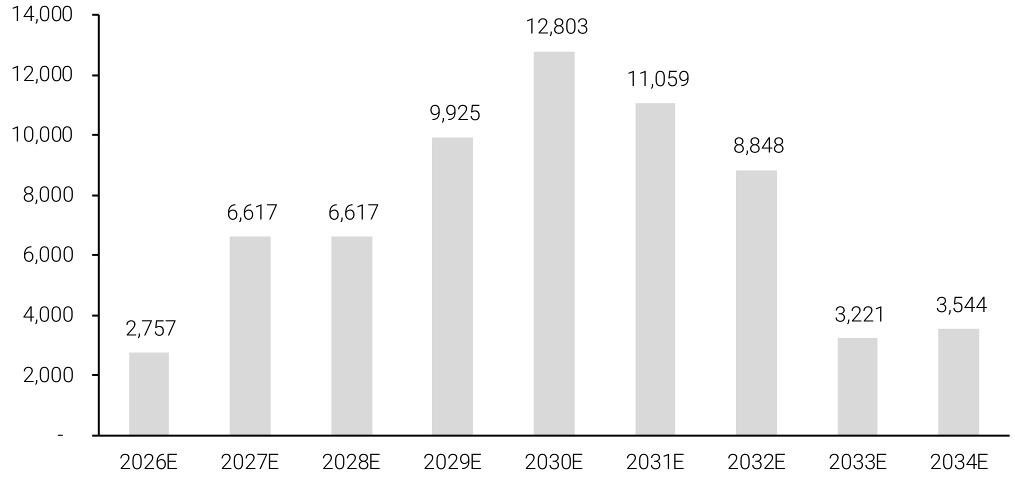
Kavach progress	Till date	In bidding stage	Under implementation	Target	% completion
Track side equipment capex (incl. station), in Rs bn	NA			340	
laying of optical fibre cable, in Km	5,133				
Telecom towers installed (X)	540				
Kavach at stations (X)	523			7,349	7.1
Track side equipment installed, in Km	3,434	9,000	15,000	68,000	5.1
Locmotives capex, in Rs bn	NA			122	
Kavach in locomotives	523	NA	10,000	15,200	3.4
Kavach capex	**15**	**45**	**155**	**462**	**3.4**

Source: Company, Kotak Institutional Equities

We undertake a 20% market share for GG tronics in the KAVACH opportunity, as guided by the CG Power management, that is expected to get executed in the next 10 years. We still await the vendor approval for GG Tronics to supply KAVACH equipment from the Indian Railways. The same translates into a ~Rs60 bn topline boost for CG Power (consolidated) with a similar margin expectation as its industrial systems business.

We expect a ~Rs60 bn topline boost for CG Power from KAVACH opportunity

Exhibit 32: Revenue forecast of KAVACH opportunity for CG Power (consolidated) (Rs mn)



Source: Kotak Institutional Equities estimates

Exhibit 33: Implied market & expected PAT for G.G. tronics

in Rs bn	
GG tronics acquisition value, Rs bn	3
Acquisition stake (%)	55.0
Implied market value of GG tronics, Rs bn	**6**
Kavach opportunity for electronic equipment	272
20% market share for GG tronics	54
Expected PAT in next 10 years, in Rs bn	**7**

Notes:-
(1) We do not include any discounting of expected PAT in next 10 years

Source: Company, Kotak Institutional Equities estimates

Exhibit 34: Financial summary of CG Power, March fiscal year-ends, 2018-27E (Rs mn)

	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Income statement										
Net revenues	**62,875**	**79,979**	**51,099**	**29,640**	**54,835**	**69,725**	**80,460**	**97,835**	**126,067**	**157,250**
Total operating expenses	(58,325)	(76,357)	(50,404)	(28,565)	(48,503)	(59,792)	(69,179)	(84,619)	(108,789)	(136,253)
EBITDA	**4,550**	**3,622**	**694**	**1,075**	**6,333**	**9,933**	**11,281**	**13,216**	**17,278**	**20,996**
Depreciation & Amortization	(1,492)	(2,253)	(2,115)	(1,383)	(986)	(945)	(949)	(1,109)	(1,263)	(1,428)
EBIT	**3,058**	**1,369**	**(1,420)**	**(308)**	**5,347**	**8,988**	**10,332**	**12,107**	**16,015**	**19,568**
Other income	395	509	481	1,114	376	678	1,063	1,294	1,699	2,208
Interest expense	(2,193)	(3,830)	(3,241)	(1,971)	(682)	(162)	(25)	(60—)	—	—
PBT	**1,260**	**(1,952)**	**(4,180)**	**(1,165)**	**5,041**	**9,504**	**11,369**	**13,342**	**17,714**	**21,776**
Tax expense	(749)	(326)	1,184	(1,476)	(1,223)	(2,058)	(2,873)	(3,602)	(4,783)	(5,880)
Adjusted PAT	**494**	**(2,277)**	**(2,995)**	**(2,641)**	**3,813**	**7,443**	**8,490**	**9,740**	**12,931**	**15,897**
Exceptional items	(4,428)	(2,638)	(18,604)	15,437	2,478	518	215	—	—	—
Reported PAT (before discontinued operations)	**(3,916)**	**(4,915)**	**(21,599)**	**12,796**	**6,291**	**7,960**	**8,705**	**9,740**	**12,931**	**15,897**
PAT from discontinued operations	(7,726)	(156)	(70)	1	2,835	1,666	5,565	—	—	—
Reported PAT	**(11,642)**	**(5,071)**	**(21,670)**	**12,796**	**9,125**	**9,627**	**14,270**	**9,740**	**12,931**	**15,897**
Recurring EPS	**0.8**	**(3.6)**	**(4.8)**	**(2.0)**	**2.6**	**4.9**	**5.6**	**6.4**	**8.5**	**10.4**
Balance sheet										
Shareholders' funds	**27,141**	**21,854**	**(1,037)**	**(843)**	**10,030**	**17,905**	**30,174**	**37,111**	**46,321**	**57,643**
Share capital	1,254	1,254	1,254	2,676	2,884	3,054	3,055	3,055	3,055	3,055
Reserves & surplus	25,888	20,600	(2,290)	(3,894)	6,964	14,851	27,120	34,057	43,267	54,589
Debt	18,801	32,701	27,638	19,651	3,522	—	—	—	—	—
Total sources of funds	**91,194**	**103,359**	**67,058**	**44,017**	**42,252**	**46,291**	**56,257**	**67,643**	**83,693**	**103,428**
Net fixed assets	15,400	19,090	13,388	9,900	9,291	8,084	8,951	11,013	12,750	14,922
Net working capital (ex-cash)	12,304	(6,282)	(21,384)	(8,565)	(9,224)	1,595	2,821	3,625	5,322	7,199
Investments	3,128	2,708	1,519	1,576	1,936	1,631	7,522	7,522	7,522	7,522
Cash and bank balances and current investments	6,934	2,708	2,613	5,336	4,880	7,140	8,544	12,615	18,392	25,664
Total application of funds	**91,194**	**103,362**	**67,058**	**44,017**	**42,259**	**46,291**	**56,257**	**67,643**	**83,693**	**103,428**
Free cash flow										
Operating profit before wcap. changes	2,442	3,580	1,083	2,749	6,579	10,190	11,543	13,216	17,278	20,996
Change in working capital / other adjustments	1,888	4,413	6,227	(5,008)	(2,365)	(714)	(7,485)	(804)	(1,697)	(1,877)
Net cashflow from operating activites	**3,760**	**7,732**	**7,044**	**(2,450)**	**4,617**	**9,364**	**4,033**	**8,809**	**10,799**	**13,239**
Capex	(1,814)	(1,354)	(518)	(177)	(727)	(855)	(2,343)	(3,170)	(3,000)	(3,600)
Free cash flow (CFO + net capex)	**1,990**	**6,442**	**6,617**	**(2,601)**	**3,921**	**8,546**	**1,805**	**5,639**	**7,799**	**9,639**
Growth (%)										
Revenue growth	2.7	27	(36)	(42)	85	27	15	22	29	25
EBITDA growth	(3.2)	(20)	(81)	55	489	57	14	17	31	22
Recurring PAT growth	(347)	45	396	(163)	(47)	33	16	15	33	23
Key ratios										
EBITDA margin (%)	7.2	4.5	1.4	3.6	11.5	14.2	14.0	13.5	13.7	13.4
Net debt/equity (X)	0.4	1.4	(24.1)	(17.0)	(0.1)	(0.4)	(0.3)	(0.3)	(0.4)	(0.4)
Net debt/EBITDA (X)	2.6	8.3	36.0	13.3	(0.2)	(0.7)	(0.8)	(1.0)	(1.1)	(1.2)
Book value per share (Rs)	43	35	(2)	(1)	7	12	20	24	30	38
RoAE (%)	(11.5)	(20.1)	(207.5)	(1,361.5)	137	57	36	29	31	31
RoACE (%)	1.5	2.3	(0.8)	3.3	10.0	17.1	16.6	15.8	17.1	17.0
RoAIC (%)	2.6	4.5	(6.9)	(9.2)	36	44	35	35	39	41

Source: Company, Kotak Institutional Equities estimates

Exhibit 35: Financial summary of ABB India (standalone), December calendar year-ends, 2017-27E (Rs mn)

	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Income statement											
Net revenues	**60,937**	**66,901**	**73,151**	**58,210**	**69,340**	**85,675**	**104,465**	**121,883**	**137,123**	**153,638**	**176,410**
Total operating expenses	(56,792)	(62,323)	(67,838)	(55,450)	(63,773)	(76,057)	(89,568)	(98,831)	(112,929)	(127,754)	(146,760)
Raw material cost	(41,030)	(45,137)	(48,610)	(38,705)	(46,263)	(55,426)	(66,025)	(70,903)	(79,632)	(89,069)	(102,094)
Employee expenses	(5,187)	(5,295)	(5,796)	(5,680)	(5,882)	(6,353)	(7,152)	(8,219)	(9,447)	(10,434)	(11,842)
Other expenses	(10,575)	(11,892)	(13,432)	(11,066)	(11,627)	(14,277)	(16,391)	(19,709)	(23,850)	(28,251)	(32,824)
EBITDA	**4,146**	**4,578**	**5,313**	**2,759**	**5,567**	**9,619**	**14,898**	**23,052**	**24,195**	**25,884**	**29,650**
Other income	777	840	943	1,069	1,596	1,795	3,017	3,534	4,258	4,976	5,844
Interest	(572)	(539)	(214)	(169)	(107)	(131)	(127)	(165)	(160)	(162)	(163)
Depreciation	(1,012)	(928)	(904)	(1,204)	(1,027)	(1,047)	(1,199)	(1,289)	(1,421)	(1,613)	(1,832)
PBT	3,338	3,951	5,138	2,456	6,029	10,235	16,589	25,133	26,871	29,086	33,498
Tax	(1,084)	(1,410)	(1,418)	(739)	(1,918)	(3,372)	(4,107)	(6,387)	(6,828)	(7,391)	(8,512)
Recurring PAT	**2,255**	**2,542**	**3,720**	**1,716**	**4,112**	**6,864**	**12,482**	**18,746**	**20,043**	**21,695**	**24,986**
Reported PAT	**4,200**	**5,109**	**3,035**	**2,192**	**5,197**	**10,162**	**12,421**	**18,716**	**20,043**	**21,695**	**24,986**
Recurring EPS (Rs)	**10.6**	**12.0**	**17.6**	**8.1**	**19.4**	**32.4**	**58.9**	**88.5**	**94.6**	**102.4**	**117.9**
Balance sheet											
Shareholders funds	36,069	40,073	35,201	36,064	40,452	49,394	59,446	70,754	82,079	93,312	105,744
Equity capital	424	424	424	424	424	424	424	424	424	424	424
Reserves and surplus	35,645	39,649	34,777	35,640	40,028	48,970	59,022	70,330	81,655	92,889	105,321
Loan funds	6,041	20	71	—	—	—	—	—	—	—	—
Total sources of funds	**42,110**	**40,094**	**35,272**	**36,064**	**40,452**	**49,394**	**59,446**	**70,754**	**82,079**	**93,312**	**105,744**
Total fixed assets	12,887	9,616	7,866	8,430	8,793	9,538	10,393	11,420	12,566	13,699	15,654
Investments	2,706	2	1	1	—	4,932	16	16	16	16	16
Cash and bank balance	14,917	14,751	15,976	22,066	26,877	31,491	48,162	55,078	65,236	75,042	84,486
Net working capital	9,963	7,635	8,671	4,249	3,590	2,389	(297)	3,109	3,298	3,593	4,625
Total application of funds	**42,110**	**40,094**	**35,272**	**36,064**	**40,452**	**49,394**	**59,446**	**70,754**	**82,247**	**93,480**	**105,912**
Cash flow statement											
Operating cash fhow before working cap	5,832	7,896	3,823	3,312	5,477	7,614	11,946	17,008	17,366	18,493	21,138
Working capital changes	2,166	(1,641)	2,846	(130)	1,015	(194)	1,696	(3,690)	(189)	(295)	(1,033)
Operating cash flow adj for working cap	**7,998**	**6,255**	**6,669**	**3,182**	**6,492**	**7,419**	**13,641**	**13,318**	**17,178**	**18,198**	**20,105**
Net capex	(1,847)	(2,360)	(1,215)	(747)	(1,358)	(1,660)	(1,831)	(2,137)	(2,398)	(2,745)	(3,788)
Free cash flow	**6,152**	**3,894**	**5,454**	**2,435**	**5,134**	**5,760**	**11,811**	**11,181**	**14,780**	**15,453**	**16,317**
Key ratios											
Gross margin (%)	32.7	32.5	33.5	33.5	33.3	35.3	36.8	41.8	41.9	42.0	42.1
EBITDA margin (%)	**6.8**	**6.8**	**7.3**	**4.7**	**8.0**	**11.2**	**14.3**	**18.9**	**17.6**	**16.8**	**16.8**
PAT margin (%)	3.7	3.8	5.1	2.9	5.9	8.0	11.9	15.4	14.6	14.1	14.2
Effective tax rate (%)	32.5	35.7	27.6	30.1	31.8	32.9	24.8	25.4	25.4	25.4	25.4
Net debt to equity (X)	(0.2)	(0.4)	(0.5)	(0.6)	(0.7)	(0.6)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Return on Equity (%)	6.5	6.7	9.9	4.8	10.7	15.3	22.9	28.8	26.2	24.7	25.1
ROCE (%)	6.5	7.0	10.3	5.1	10.9	15.5	23.1	29.0	26.4	24.9	25.2
Book value per share (Rs)	11	12	18	8	19	32	59	88	95	102	118

Source: Company, Kotak Institutional Equities estimates

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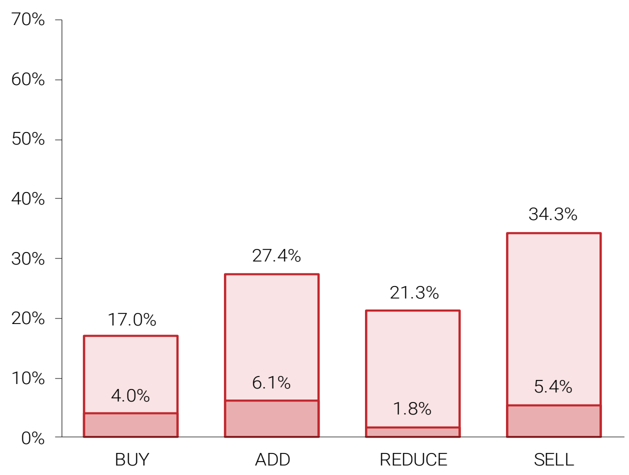

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